UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator, Rural Electrification Administration, before the 21st Annual Meeting of the National Rural Electric Cooperative Association, January 15, 1963, at Las Vegas, Nevada

Rural Electrification - Strength for the Future

It is always an inspiration to attend one of these great annual meetings of the National Rural Electric Cooperative Association. It is an inspiration because you are the kind of people you are -- acknowledged leaders in rural America, doers of great deeds, and builders of a better way of life in this Nation. More than that you represent a way of life where doing for one's neighbor is just as important as doing for one's self. You represent the independence and the personal initiative coupled with the spirit of neighborliness and cooperation, which are the indelible marks of America's rural life at its best.

There is inspiration too in the sheer size of this meeting, for it is a reflection of the tremendous job you have done in bringing the blessings of electricity to the once darkened areas of rural America and the massive impact this undertaking has had upon the national life.

No matter how familiar we may be with the REA story -- and I know that you are all intimately familiar with it -- I am sure that you, just as I, never cease to be amazed at the magnitude of what you have done so successfully against such great odds. With the opportunities and the tools provided through the REA program you have built, in 27 short years, cooperative rural electric systems representing a present investment of $3,800,000,000. In this investment you have an equity now of $800,000,000. That equity is your own money, not REA loan money. It is your investment, and it is growing. Your 1,400,000 miles of lines, stretching out across the prairies, crossing mountains, and winding up through isolated valleys, now serve 4,800,000 meters.

These meters represent the service of over 17,000,000 people today, not to count those who have been served at one time or another along these same lines in earlier years, but who have now moved away or passed on.

From the early days when some spokesmen in the industry were saying that you and your families would not use 20 kilowatt-hours a month, you have put electricity to work on such a scale that a nationwide average for REA-financed systems is now about 400 kilowatt-hours per month for each residential consumer.

You have literally created a new market for power which was not there before you undertook the task of rural electrification. Today your systems consume an annual total of 37,000,000,000 kilowatt-hours of energy. This was the input in 1962. Some of that you generated yourself; most of it you purchased. In 1962 you purchased 12,500,000,000 kilowatt-hours from the commercial utility industry and paid a total bill of about $97,000,000. This is a market you created and one for which you should properly be entitled to their praise and gratitude, not their criticism and hostility.

You created what is now a $1,000,000,000 market every year for electric appliances and equipment in rural America where such appliances were useless before you went to work.

You have opened up vast new areas of the Nation for business development where people can live and work in the country with the assurance that electric light and power is there just as well as in the city.

As the needs of our national defense have grown to require a nationwide network of military defense installations in isolated areas, the systems you have built have been ready to serve them where there was no service within reach 27 years ago.

By using electricity boldly you have strengthened the agricultural potential of America, and above all, brought to rural America the same standards of convenience through electricity which once had been restricted to the city.

All this underscores the theme of your meeting, "Rural Electrification - Important to America's Strength."

You have provided more than wires and kilowatts. You have built systems that are dedicated to the principle of area coverage, the principle that neighbors should join together and furnish service to all through their joint efforts and joint support, helping the neighbor away out on the end of the line get his service at the same rate as the one next to the substation. You have formed cooperatives based on the proposition that the maximum benefits of this service are to be shared among all the members.

Your cooperatives recognize the importance of electricity to people, and in recognition of that importance they provide the democratic mechanism by which the people they serve may participate in both the ownership and the government of the systems.

A distinguished American historian, Frederick J. Turner, who incidentally was born in Wisconsin and served on the faculty of the University of Wisconsin, won a place for himself as one of the great American historical scholars by describing and analyzing the effect of frontier life on the shaping of American institutions and life. The cooperative is part of the important legacy that has come to us from the old frontiers of American development. It is one we as a Nation will do well to preserve and strengthen as we move ahead on the new frontiers. The rural electric cooperatives stand today as one of the vital institutions of rural democracy. In a Nation of rapidly changing population patterns they offer a means of carrying over into the more complex rural communities of the present and the future the spirit of basic democracy from which they grew.

So it is today that I want to talk to you not so much of the rural electric cooperatives as a source of past strength, or even present strength, but rather as a source of future strength for America.

This implies both the survival and the growth of your electric systems and your cooperative organizations. No one who reads the debates in Congress at the time of the enactment of the Rural Electrification Act can doubt for an instant the intent of Congress with respect to the future of your efforts.

Congress did not intend that what you build could remain yours only so long as others in the business did not covet it. I am sure those of you who went from farm to farm in those intiial sign-ups did not intend that you were building simply a stop-gap system to serve until the power company was ready to take over. And I can assure you that we in REA have no such intent.

When we talk of the rural electric cooperatives as a source of future strength for America, it also implies that what you have done and are doing to provide the benefits of electric service in the areas you have undertaken to serve is not a one-shot deal, but is instead a continuing and growing task and responsibility. It is only common sense that the job of providing electric service for unserved people in rural areas was not completed when the wires were brought to the farm house. The job is then just begun. It is what comes over those wires that lights the lamps, heats the ranges, and turns the motors. The true measure of the benefits to come from that service is to be found in the continuing dependability of the service and in its current cost. This is a job that goes on every minute of every day of every month of every year. Experience shows that it is, moreover, a growing job, for the people in the rural areas served by the REA-financed systems are requiring more electricity every year.

The survival and growth of these cooperative systems you have built are hinged, as I have said on many occasions, on the solution of three great problems. The first is the problem of power supply, the second is the problem of territorial integrity, and the third is the problem of rural area development.

In the field of power supply, REA under this Administration, with your help and support, has moved decisively to make available to you your own generation and transmission facilities, if you cannot secure the power you need from other sources on a fully dependable basis, on terms that are fair and do not restrict your right to fully serve your territory, and at a cost at least as economical as you can generate it for yourself. But we are not out to build generating capacity just to build something. Our objective is to help you develop sources of power supply which are adequate and dependable, offering the lowest possible cost, and compatible with the security and effectiveness of the systems you have built.

These objectives should be just as attainable through proper contracts with the commercial utility industry as through contracts with public power sources or from your own generation and transmission facilities. In fact, the technology of the industry is moving so rapidly toward larger scale generation and the economies which flow from it, that the maximum benefits from the industry can come only from a high degree of cooperation and coordination among its various segments -- commercial, cooperative, and public.

If the day ever comes when those who direct the destiny of the commercial utility industry recognize that the rural electric cooperatives are here to stay and should serve in their own right the territories they have developed, the door will be opened for solving a wide range of problems between the rural electric cooperatives and the commercial utilities with benefit to both.

Duplication of lines and pirating of consumers, the present hostile propaganda barrages and all the current energies mobilized in unnecessary controversy are a great waste of time and money on both sides. So long as the predatory motives of the commercial utilities remain uppermost and inspire continued attacks on your right to exist and serve effectively in the territories you have developed, you have no alternative except to fight back in self-defense. How much better off we would be if those energies could only be turned to constructive purposes.

The problem of territorial integrity is just as vital to the survival and effectiveness of your systems as is the problem of power supply. If your systems are constantly dismembered and the portions of your service territories where population growth provides the advantages of greater density are eventually lost, you will never be able to bring to the thinner portions of your territories the cost and service advantages which should rightfully be theirs. Likewise, if you are denied the right to serve the larger loads in your service territories, the effectiveness of your systems in serving everyone else is seriously crippled.

REA can provide loan funds and technical assistance in helping you meet the problems of power supply, but in dealing with the problem of territorial integrity the real answers must be found in your respective states. We stand ready to help you in every way we possibly can, but the final outcome is going to depend primarily on your own persuasiveness in winning recognition for the justice of your cause at home.

The stake of the rural electric cooperatives in rural area development is obvious. Your cooperatives are serving rural areas. If the economic base of rural areas is allowed to stagnate and dry up, people move away. This they have already been doing in large numbers. There are 500,000 idle services on the lines of rural electric cooperatives today, meters that once served people who have moved away, houses now empty, farms that have been absorbed by neighboring farms. The economic base of the area served is the business base of the cooperative -- if one shrinks so does the other.

On the other hand, if new economic opportunities are provided for people to hold them in the area, it means not only growth for the cooperative in the volume of electricity sold but greater benefits in terms of better service at lower rates, for the electric business is a volume business.

The rural electric cooperatives and REA borrowers in the telephone program have recognized this and are fast becoming an important mainstay in the development of the Rural Areas Development Program which Secretary Freeman has pushed with such vigor in the Department of Agriculture. They have likewise become a vital factor in the Area Redevelopment Program of the Federal Government in the rural areas. REA-financed borrowers serve in 95% of the rural areas eligible for ARA loan assistance.

- more -

REA has been conducting a survey among its borrowers, asking them to report on all rural area development projects which they have successfully assisted to either the construction or operation stage between July 1, 1961, and the present time. Of the 1785 REA borrowers in both the electric and telephone programs, we have heard from approximately 600 to date. These 600 borrowers report that they have assisted 402 industrial and commercial type rural development projects either in operation now or under construction in their service territories. These projects represent a total investment of about $300,000,000 in rural areas. They will provide direct employment to approximately 30,000 persons in those areas. (In addition, they will stimulate indirectly about 22,000 jobs for other people in related businesses in those communities.) Of the total investment represented in these projects, approximately $15,000,000 came from Federal sources other than REA, while in excess of $250,000,000 came from private and other non-Federal sources. A projection of these figures to cover all 1785 REA borrowers would give even higher project, job and private investment totals than estimated on the basis of the early returns from this survey.

Since the beginning of Secretary Freeman's emphasis on the Rural Areas Development Program, REA has approved only 14 industrial and commercial consumer loans from Section 5 funds for an aggregate amount of $1,240,000. Experience has shown, however, that the availability of these Section 5 loans has been an important asset in stimulating the leadership of the rural electric cooperatives generally in rural areas development and, in instances where legally appropriate and necessary, providing the important last link in the chain of financing where other sources failed.

In addition to these commercial and industrial projects, these 600 REA borrowers report that they have helped communities in their areas launch 187 public facility projects such as hospitals, water systems and sewerage systems.

But here again we are talking about the material side of the cooperatives' contribution to their communities. This is important and an essential element in developing the future of our national strength, but it is only part of the story.

The survival of your cooperative systems and their effectiveness as a growing source of future strength for America is also rooted deep in the way you manage your systems and practice the basic democracy fundamental to your cooperative organizations. The rural electric cooperatives can be a decisive factor in keeping alive the spirit and character of rural America as it moves into this new era when the dividing lines between city and country are rapidly breaking down. This can be a contribution to America's future every bit as significant as the material aspects of cooperative leadership.

But this is not a question of what the Rural Electrification Administration can do or will do -- it is a question of what each of you is prepared to do in developing the full potential of your own cooperative electric organization. At REA we can merely suggest some objectives and perhaps assist, if you call upon us, in developing a broader understanding of them. The real job is up to you.

We have endeavored to put down on paper the major objectives of the ideal rural electric cooperative. We are calling them the Five-Star Member Service Program, and we trust that as you have the opportunity to examine this program you will be moved to measure the performance of your own cooperative against the objectives set forth. The process of self-appraisal, once undertaken seriously will involve also the active process of self-improvement.

In the development of the REA program rural people have recognized in cooperative organizations two great advantages.

The first great advantage is the consumer's opportunity to own and direct the system on which he depends for service. At the outset of the program this was an obvious and all-important advantage because it gave the rural people who wanted service the opportunity to make the first big policy decision -- the decision that they would be served. They could not get the power companies to make that decision in their favor, for they did not control the power companies. They had no voice in their management. But in their own cooperative organizations they were able to decide that service would be extended to them because they had the advantage of ownership and control.

This is just as vital an advantage today, and when you tally up the advantages which your cooperatives afford the members they serve, this one should head the list.

Second was the advantage of nonprofit operation in passing on to the consumer the benefits of the lowest possible rates. With a cooperative distribution system, there is no third-party middleman between the consumer and the power source, for the cooperative distribution system is the consumer -- all its consumer members joined together to bring the power to themselves. And in a field of rural electric service where the physical costs of service are inevitably high, the elimination of the usual middleman's profit is a crucial saving.

Cooperatives offer a practical application of democracy to the affairs of commerce. It is a form of economic democracy through which the individual consumer can participate in both the benefits and the control of his own service. This is an important protection to the consumer where cooperative organization is available to him.

The Five-Star Member Service Program is a program to develop the full potential of benefits that can flow to your members and your communities from these two basic advantages. In fact, the first two objectives of the program are stated almost as I have stated the two essential advantages of a cooperative organization.

The first star objective is Full Membership Benefits from Ownership and Control of the Cooperative. Do you get full participation of your members in the affairs of their cooperative? Do you have good annual meetings? How democratic is your election of directors? Do your policies and rates treat everybody fairly and without discrimination? Do you practice area coverage, and is management responsive to the needs of all members? Do you go beyond the board in encouraging member participation in understanding and solving problems facing the cooperative?

These are questions we hope each of you will ask yourself in evaluating the effectiveness of your own cooperative in meeting this objective.

The second star objective is Full Membership Benefits from Nonprofit Operation of the Cooperative. Are you extending to your members the full benefits that are now available to them with prudent management? This can be done either in the form cf lower rates or through planned payment of capital credits, or both.

The cooperatives generally have taken a long step forward in their enthusiastic response to our recommended policy for determining the appropriate levels of general funds in relation to plant investment. The accumulation of excessive general funds not only becomes a convenient springboard for opposition attacks on the REA program but also represents a very real neglect of the consumer's right to his full measure of benefit from nonprofit operation. The fine way you have responded to the policy guidelines we have set forth is ample demonstration that this neglect was certainly not willful, but simply the result of uncertainty as to what was expected in the name of prudent management.

Let me interject a few words about capital credits. If a cooperative is to be true to its principles of consumer ownership, the consumers and the owners should be the same people so far as possible. This not only presupposes a plan for crediting the capital contributions to the patrons as they are made but also a plan for revolving the capital.

The mechanism of a proper capital credits program has been the subject of much discussion and debate within the circles of the REA program for many years. It is extremely important that we develop some unanimity of approach and develop a basically uniform method of computing and revolving the capital contributed by the members of the rural electric cooperatives over and above the current costs of service.

It should be a simple plan that is in complete harmony with the essential simplicity of a cooperative nonprofit operation. It should be just as understandable to the members as to the accountants and the lawyers. It should be a plan that fully meets the standards of the Internal Revenue Service for truly nonprofit operation, and it should be a plan on which we can all essentially agree.

This may sound like a big order in view of past debates and the tangled mass of lay opinion, legal judgment, and accounting practice, which have characterized the confusion in this field to date. But we have been working on this in REA along with representatives from your staff in NRECA. With the help, advice, and counsel which we hope to get from you in the months ahead, we are hopeful that we can offer some constructive guidance to you in developing a capital credits program which will meet the specifications I have enumerated.

Then there is the third-star objective of the member service program -- Full Membership Benefits from Adequate and Dependable Electric Service Furnished by the Cooperative. Is the service of your cooperative good, reliable, and provided at lowest practical cost? How good is your preventive maintenance program? Are outages kept to a minimum and is service restored promptly after an outage? Do you promote safety consciousness among the membership, employees and general public?

The fourth star objective of the member service program is Full Membership Benefits from Electrical Use. Are you building full power use in your service territory? Do you commit sufficient resources and manpower to the job? Are your efforts to give assistance balanced among residential, farm and non-farm business and industrial consumers? Do you see that financing assistance is available to members interested in purchasing new appliances or equipment? Do you work closely with local dealers? Are servicing facilities available to members, and do you carry on a continuing educational program to acquaint them with power applications? Are you working with others in the community and providing leadership to develop the economy of your area?

And finally the fifth star objective is that of effectively and fully Telling your Cooperative Story, not only to your own members but to the public as well. It is important that your own members know the benefits available to them from the cooperative so that they can fully participate in them. It is also important that the public understand the true nature of your cooperative and the job it is doing, for your ultimate ability to serve your members and your communities depend on many public judgments.

Do you keep your members and the public informed? Do you have a newsletter? How much effort do you put behind the annual meeting? Are you active in civic and business associations? What media do you use to get your story across? How good are your employee relations? Does your cooperative have a reputation for being a fair and progressive minded employer? Remember that the support of all segments of society is important to you, including the support of organized labor.

I have said it before. I say it again: I firmly believe that what you have built was built to endure, not only as a permanent part of America's great electric industry, but as a living, vital force in the future growth and development of rural America. I am not speaking of REA as a Government agency; REA will continue only so long as you need its assistance. I am speaking instead of the electric systems and the cooperative organizations you have built and nurtured. In this critical period ahead, we in REA can be of important assistance in many ways, but in a very real sense the ultimate determination of the survival and effectiveness of the rural electrification cooperative systems will depend on how well you and the thousands, yes, the millions of rural people will serve in as well as be served by your cooperatives.

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator,
Rural Electrification Administration, before
Annual Meeting of Virginia Association of Electric
Cooperatives, Old Point Comfort, Virginia, April 28, 1964

DEVELOPING THE ROLE OF THE STATEWIDE IN RURAL ELECTRIFICATION

I am particularly pleased to have the opportunity to participate in this meeting of the Virginia Association of Electric Cooperatives. Although Wisconsin is my native state, Virginia is now my adopted home and as a consequence the state of rural electrification here inevitably takes on added interest for me.

It concerns me, as a resident, and a neighbor, when the power company's meter reader comes to our home and undertakes to tell Mrs. Clapp what is wrong with the neighboring rural electric cooperative. Is this just one man's mistaken opinion to which he is certainly entitled, or is this what he is told to do as part of the massive organized campaign to poison public opinion against the rural electric cooperative systems? It is of personal concern to me as a consumer to know how the dollars paid for electric service are being spent. How much of my light bill each month is charged to me to carry on the propaganda activities directed against the rural electrification program, either directly by the particular power company which serves me here in Virginia or through trade association activities such as those of the Electric Companies Advertising Program and the Edison Electric Institute? It is of personal concern to me to know how many of my dollars are used to influence Congress against the needs and goals of rural electrification. It is of personal concern to me as a taxpayer to know how my tax dollars are used where the needs of rural electrification are at stake. And it is of personal concern to me as a citizen to know how my elected representatives vote when they face the issues of rural electrification.

These are all concerns I share with you now, not just as Administrator of REA, but as a consumer, taxpayer and citizen of this great Commonwealth of Virginia. So, as I say, I am particularly pleased to have the opportunity to meet with you here today, for these are your concerns too, and the concern of this association.

In many ways you have made great progress in rural electrification here in Virginia, but do not be misled into believing either that the job of rural electrification is done or the need for an alert, aggressive, and progressive statewide effort in its behalf has passed.

- more -

To anyone who has read the newspapers or magazines or watched television, it is clearly evident that the broad concept of rural electrification as it has been developed is under attack. Opponents of the REA program have vast resources to sway public opinion to their side -- and they are using them.

However, let us also recognize that we in the rural electrification program are not without important resources in this struggle. Your association represents one of the most important resources. You, as members of a statewide organization, working together, can multiply enormously your individual effectiveness in the essential functions necessary to protect and promote the goals and purposes of rural electrification.

What are these goals -- really? Are they just to bring electric service to farmers? Of course not! REA stands for the Rural Electrification Administration...not the Farm Electrification Administration. The basic Act passed 28 years ago is the Rural Electrification Act. It authorizes assistance to provide service to "persons in rural areas," and to quote the Act further the term rural area is defined to "include both the farm and nonfarm population thereof." The term person is further defined to mean "any natural person, firm, corporation, or association." Clearly the rural resident, the rural businessman, whether he be farmer or not, was intended to be served by the rural electrification program. Yet there are even some self-styled friends of rural electrification whose support only extends to the rudiments of farm electrification and excuse themselves on the grounds of the Edison Electric Institute's position that anything beyond that is a "deviation" of the REA program.

Are the goals of rural electrification contained completely in the single concept of area coverage? As important as it unquestionably is, the mere extension of the physical facilities of electric service on an area coverage basis is obviously not the full measure of accomplishment in rural electrification. Common sense tells us it isn't. That is confusing the road with the trip. It is not the physical connection that we are striving for; it is the service that comes through that connection that counts -- its availability, its dependability, its cost. Yet we have necessarily been so preoccupied with the awesome task of overcoming wide open space and rugged terrain to make these connections, that it has been easy for some to confuse this means to the end with the end itself. We have heard it suggested, accordingly, that the job of rural electrification is now substantially completed because 98 percent of the Nation's farms have been reached by central station electric lines.

I was in Washington back in 1935 when the Congress authorized the first $100 million of Federal assistance for rural electrification. I was a young fellow just out of college on the staff of Senator Robert M. LaFollette, Jr. of Wisconsin. I was in Washington when President Roosevelt signed the executive order creating the Rural Electrification Administration. I was there when Congress passed the Rural Electrification Act in 1936.

I remember the debate, the discussion, the interest and concern that produced this historic breakthrough for rural America. The real objective of Congress and all those who had a hand in making rural electrification possible was that people in the country should have the blessings of electricity just as people in town could and did have them. Underneath it all was a conviction that neither the lack nor the high cost of electric service should be a penalty imposed upon country people. It is too important, both to living standards and business opportunity, to be tolerated on any terms short of parity.

This is the real objective of rural electrification. It was then. It still is today. And we still have our work cut out for us if we are yet to achieve it.

Over the years, even before the REA program was started, the terms and conditions upon which electric power has been available has determined its usefulness to people, its influence in improving living conditions, in boosting income levels, in increasing productivity and efficiency on the farm and in encouraging a broad-based development of the economy. Good service at fair rates exerts a leverage on the development of an area that goes far beyond its simple helpfulness as a personal worksaver for those who use it.

Today the lights are on in the rural areas. Here in Virginia some 98 percent of farmers and other rural people are served. But the inherent handicaps leading to higher cost in serving the rural areas still remain because the development of the rural systems was restricted historically to those areas of lower population density, of few large power loads, where diversity between loads was poorest, where consumers were most isolated from one another and in areas of limited access to low-cost power.

Even today, after many years of development here in Virginia, the contrast in density and revenues is still severe. In 1962, for instance, REA-financed systems in Virginia averaged only 4.4 consumers per mile of distribution line as compared to 24.8 for the Class A and B utilities, which include virtually all commercially operated systems in the State. The average annual revenue per mile of such line for the REA-financed systems was $505 while the Class A and B companies averaged $5,047. This means that the urban-based commercial systems have on the average more than five times as many people to share the capital costs on each mile of distribution line and collect ten times as much revenue from each mile constructed.

As a result, even with the assistance of the equalizers provided through the REA program, rural people in Virginia served by REA-financed systems still pay rates substantially higher than city people pay.

There has been much discussion in recent years of REA financing and the 2 percent interest rate. The critics of the rural electrification program have complained that making 2 percent loans for rural electrification costs the taxpayer money. This complaint is certainly open to challenge if you consider the total effect of this type of investment in a growing America, not only returning a 2 percent interest rate to the Treasury but also adding productivity and income to the Nation as a whole.

Even looking at the question in its narrowest sense as a simple fiscal transaction by which it is assumed the Federal Government borrows the money at one interest rate and relends it at 2 percent, the cost has been grossly exaggerated. The average cost of the Federal Government's borrowed money is currently 3.5 percent, not 4 percent as many would lead the public to believe. That is an interest rate on only the long-term maturities, which represent a comparatively small segment of the Treasury's borrowing, 12 percent to be exact.

But whatever the cost, certain facts are clear.

First of all, anyone familiar with the problems of rural electrification must recognize that until the rural systems can substantially narrow the density and revenue gaps that so dramatically distinguish them from the urban-based systems, low-cost capital, 2 percent capital if you please, is a necessary equalizer if the rural systems are to provide service and rates in rural areas comparable with those available to city people.

Even with 2 percent loans the rural systems financed by REA must pay 7.2 percent of their gross revenues for interest charges. The Class A and B commercial utilities require only 6.1 percent of their gross revenues to meet interest charges.

Secondly, if this density-revenue gap is to be narrowed, much needs to be done to develop the basic equalizers which will strengthen the rural systems and thus diminish their dependence upon 2 percent financing for their feasibility in accomplishing the objectives of rural electrification.

Third, those who sincerely wish to reduce the public cost of REA financing ought to join with us in undertaking this basic strengthening of the rural systems. The road to sound and constructive economy in the REA program clearly lies through the strengthening of the rural systems themselves by means of such basic equalizers as low-cost power supply, rural area development, territorial protection, and efficient, nonprofit operation.

In Virginia during the 1963 fiscal year the rate paid for power purchases varied widely, ranging from 12 mills paid to one commercial supplier down to less than 5 mills paid for TVA power. Altogether, it averaged about 7 mills per kilowatt-hour. Your power bill represented one-third of your total expenses in providing service here in Virginia during fiscal 1963, and it will be the dominant factor in the years ahead in determining what kind of parity can be achieved in power rates for rural areas.

A single mill, or even a fraction of a mill, in the average cost paid per kilowatt-hour by REA borrowers adds up to a surprising dollar volume. For the 12 months ending July 1, 1963, for instance, a single mill reduction in the cost of wholesale power for REA-financed distribution cooperatives across the Nation would have meant a total saving of almost $34.7 million for the rural people and businesses they serve. In Virginia, a one-mill reduction would have saved more than $585,000.

Where sound and equitable power arrangements can be realized through cooperation among suppliers it helps win the battle for parity in electric service. The continuing effectiveness of rural electric systems will become more dependent upon the degree to which these systems can become full-fledged parties to necessary cooperation and coordination among all power suppliers, commercial, cooperative and public.

Rural area development is another basic equalizer than can contribute much to the strengthening of the rural systems. The larger power loads of commercial and industrial enterprise in rural areas can help in developing greater efficiency in the use of rural system investment. Rural systems generally do not have very many such loads. Just 20 percent of the 1962 revenues of REA-financed systems came from commercial and industrial loads. The Class A and B commercial utilities drew more than half of their revenues from these sources. The load factor of the rural systems on a nationwide average is only about 45 percent. This is substantially below the 65 percent load factor of the Class A and B commercial utilities.

Parity of electric service in rural areas is a necessary factor in rural area development. And rural area development will be an important factor in making parity of service and rates possible.

In all parts of the Nation, REA borrowers have been playing an increasing role in developing the economic potential of the areas they serve. Our own surveys of the scope of that activity include an impressive number of development projects undertaken with the help of these systems. Since July of 1961, they indicate, at least 937 commercial and industrial projects were launched in which REA borrowers participated. These projects will create direct employment for 62,500 people in rural communities and provide employment indirectly to 47,500 people.

These new and expanded businesses represent a total additional investment in rural America of over three-fourths of a billion dollars. Of this new capital, more than 92 percent is coming from local and state sources. Less than 8 percent has been provided through various Federal credit programs. It is significant to note that while the use of REA Section 5 funds for commercial and industrial development has attracted many critics, such loans represented less than one-fifth of one percent of the total investment in these projects. This record indicates the extent that such financing can function as "seed money" in making it possible for electric cooperatives to help communities utilize the other resources which have been available for expanding economic opportunity.

Access to low-cost power and a strong program of rural area development can provide no sound basis for stability and permanence for the rural power system unless it has also achieved adequate recognition of the integrity of the service area it has undertaken to develop. If the rural systems are to overcome the handicaps of low density and limited revenue to support the high capital investment in their facilities, they must not only be able to stimulate growth within their service areas but to hold on to it when it develops.

I speak to you here today about the role of the basic equalizers in the rural electrification program because this is really your department. The Federal Government can make vitally needed capital available on favorable terms. REA can provide advice and technical assistance. But in the last analysis the real strength -- the inner strength -- of rural electric systems must come from the people who own and operate the systems and the leadership applied to their management.

Management, to be most effective, must be alert to the growing challenge thrust upon these systems with the increasing usefulness of the service. If rural electric systems are to be thus strengthened, their management policies must be directed toward fulfilling future needs.

To help you prepare for the future and to supply you with a basis for continuing self-appraisal and self-examination REA has developed and last year launched its 5-Star Member Service program. The purpose of the 5-Star program is to provide an appropriate means for directors and management to examine the operations of their organizations to discover for themselves whatever specific needs for improvement become apparent and to be sure they are laying sound groundwork for the future. As more borrowers recognize the value of this process, they will discover they can be more effective not only by working more efficiently on the local level but also by working more together in many activities on the statewide and national levels.

We in REA see in the 5-Star program a framework for evaluation that starts from the initial survey and can be carried forward in a continuing appraisal as a major management tool. Most REA borrowers over the Nation have now taken this first step in the program. Here in Virginia our reports indicate at least 11 of the 16 cooperatives have completed their basic survey. While these introductory meetings were planned as thought, rather than action, sessions, their value here in Virginia has been demonstrated by the number of follow-through steps now underway.

Four Virginia cooperatives have instituted retail rate actions leading to savings for their consumer-members. Four other cooperatives have taken steps to increase their public and member relations activities. One of these has embarked on a program of holding district meetings to hear member views as well as to explain cooperative programs. Employee orientation programs, power use promotion, and youth programs are other forward-looking activities now being developed by Virginia cooperatives as a result of the self-appraisal process of the 5-Star program.

We have seen enough results from these efforts to be convinced of their value. When directors and management sit down to take fresh and systematic stock of their organizations and the job which remains to be done, they will be looking for better ways to tackle that job ahead not only within their own organizations but also by working together with other cooperatives.

Banding together as cooperatives will bring greater results in some kinds of activity just as the willingness of your individual members to join together and work together locally laid the groundwork many years ago for your present success in rural electrification.

The prescription for the future must take into account that individually your systems are small in an industry where the typical supplier is large. Individually each of your systems is supplying services as part of a handicapped sector of the industry where the impact of a density-revenue gap places a heavier than usual premium on efficient, economical operation. Under these circumstances rural electric systems must recognize that there will be problems which can be solved most effectively only by looking beyond their individual capabilities to what they can achieve through cooperative action together. Here is the challenge of the developing role of statewide associations in the rural electrification program.

In reviewing present capabilities and resources of statewide and similar associations of rural electric systems, we find great diversity from state to state in the functions performed and the staffing patterns developed. I would not attempt here today to provide any prescribed blueprint of statewide structure or function. Rather I would suggest that you undertake your own evaluation along the lines of the 5-Star Member Service program approach. Consider how your statewide association can serve best in developing for your cooperatives the basic equalizers so important to the ultimate achievement of parity in rural electric rates and service.

The areas for potential statewide activity are as broad as the areas of local activity and can be evaluated through the same evaluation tools employed in your local cooperative to appraise your local development. Each of the five stars in the 5-Star Member Service program might be subjected by the directors of the statewide to the same intensive evaluation by projecting your needs to determine the kind of objectives, resources and staffing patterns that will be necessary to provide the most effective services to your local systems. The degree to which you will rely upon joint action is basically a management decision. Where and how a particular activity can better be performed, or whether it should be undertaken at all must be determined in light of what you feel will best serve your objectives in rural electrification. Whatever course you pursue and whatever importance you attach now to preparing for the future will help determine the future of rural electrification.

Bear in mind that in this association of rural electric systems there can be brought into focus the collective purposes, drives, and resources of all its members to do together what cannot be done so well individually.

There are two schools of thought on rural electrification. One school looks upon the rural systems which you built with the aid of REA financing as mere stop-gap caretaker devices to provide service for areas the commercial industry does not find sufficiently profitable to serve. According to its thinking, whenever a commercial company is willing to serve any customer or any territory, the rural system should retire and leave that customer or that territory to the commercial company.

If this is the course rural electrification is forced to pursue, we will never close the density-revenue gap of the rural systems. They will forever be dependent upon special assistance if they are continually deprived of the fruits of growth and forced to subsist on the left-overs of what was left-over territory at the beginning. The assistance of 2 percent financing will be needed in perpetuity under such an approach.

The other school looks to the strengthening of these rural systems as permanent segments of a great and growing industry and as providers of better living and greater opportunity for rural people.

This is our objective in REA. President Johnson is a great believer in governmental economy, and this is the kind of economy that makes sense in rural electrification, for as the rural electric systems are strengthened, their need for the special assistance provided by REA will diminish.

We look to statewide associations such as yours and to your national association as key elements in the development of this kind of strength.

We have long talked about the importance of electricity to rural people. Its need has been amply demonstrated by the success of our rural electrification program. What is at issue today, is not the need for electricity in rural areas, or how this need has been met in the past, but how it will be met in the future.

####

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator
Rural Electrification Administration, at dedication
of steam plant of Western Farmers Electric
Cooperative near Mooreland, Oklahoma, July 25, 1964

I am certainly pleased to join with you people of Oklahoma here today for the dedication of this fine new generating plant of the Western Farmers Electric Cooperative.

This plant represents another significant milestone in the growth and progress of the Western Farmers electric system and its service to the rural people of this great area. It represents an added contribution to the resources and development of rural Oklahoma. It represents the promise of greater reliability of electric service to the people of this area. It represents added resources and strength for the 12 rural electric cooperatives which have joined together in -- and are served by -- Western Farmers Electric Cooperative. Finally it represents another demonstration of the good works and great deeds which are accomplished in rural electrification by the constructive cooperation of local people and their government through the REA program.

Occasions such as this are appropriate times not only to mark with satisfaction the accomplishment represented, but also to pause and reflect on its meaning.

This particular generating plant we are dedicating here today has a very definite meaning, a very specific purpose, and a very pointed significance in providing added capacity and improving the reliability of Western Farmers service in this area. It will offer a direct source of firm power in an area

- more -

where not long ago the nearest source of major generation was 150 miles away. It thus serves to balance the system, reducing the possibility of major outages, stabilizing voltages, and generally improving system reliability as well as adding new capacity to meet expected load growth. Through the interconnections of the Western Farmers system with the Southwestern Power Administration and the Oklahoma Gas and Electric Company, this plant also makes a significant contribution to the development of a well-balanced power system for Oklahoma.

This plant is being financed by a loan from your Federal Government through REA. It is a part of the REA program for financing generation and transmission facilities to serve the purposes of rural electrification. What is its significance as a part of this program?

Perhaps the question goes even beyond that. Let us give some thought here today to the meaning, purposes and the significance of the REA G&T program itself, for it is a controversial program which needs broad public understanding. As much as we might believe everyone should understand and support it, there are those who do not.

In 1935 when President Roosevelt created the Rural Electrification Administration and in 1936 when the Rural Electrification Act was passed, the real objective of Congress -- and of all those who had a hand in making rural electrification possible -- was that people in the country should have the blessings of electricity just as people in town could and did have them. Underneath it all was a conviction that neither the lack nor the high cost of electric service should be a penalty imposed upon country people. Electricity is too important, both in living standards and in business opportunity, to be tolerated on any terms short of parity.

The initial hook-up of a consumer is only the beginning of a rural electric cooperative's job; the mechanical task of providing service is only a part of this program. The other part, which is every bit as important, is the job of making that electric service available in rural areas under rates and conditions comparable to those available in urban communities. This is the real objective of rural electrification. It was in 1935. It still is today. And we still have our work cut out for us if we are to achieve it.

The best figures available to us at this time indicate that there still remains a wide gap between rates paid by people in the city and people who live in the rural areas. Here in Oklahoma, for example, what studies we have been able to make tentatively show that rural people pay 16 percent more than their city neighbors pay for 500 kilowatt-hours.

The reason for the continued existence of this gap lies in the simple fact that REA borrowers are still struggling with the inherent handicaps of serving our rural areas. These built-in obstacles to parity of rates with urban areas show up as low consumer density per mile of line; low revenue per mile of line; a lack of diversity with large power loads; and the isolation of the rural systems.

Rural electric loads continue to be principally farm and residential, with demand curves full of sharp peaks and deep valleys. This has been true since the beginning in the 'thirties. The load factor of rural systems financed by REA, on a nationwide basis, still is only about 45 percent, compared with 65 percent for the typical urban-based utility.

Even after a number of years of rural economic development, the contrast in density and revenues between country and city is still a sharp one. The most recent information indicates the REA-financed rural systems in Oklahoma, for example, average only 2.3 consumers per mile of distribution line, as compared with 31.2 for the Class A and B utilities in the State. The average annual revenue per mile of line for the cooperatives in Oklahoma is only $321; for the utilities, $6,242 per mile.

This means that the urban-based commercial systems in this State have, on the average, more than 13 times as many people to support the capital costs of each mile of distribution line and collect nearly 20 times as much revenue from each mile constructed.

To help overcome handicaps like these, a number of equalizers were written into the REA program, including long-term, low-cost loans, encouragement of nonprofit modes of operation, and technical assistance from REA. Even the critics of the REA electric loan program seem to admit grudgingly -- in some instances, at any rate -- the necessity for these equalizers for distribution systems.

But it is not so clearly understood that these same equalizers are just as essential for generation and transmission facilities, which also are specifically authorized in the Rural Electrification Act, if we are going to achieve parity of rural rates.

The distribution cooperative serving the ultimate rural consumer must charge rates which will produce revenues sufficient to cover its costs. On some of those costs it gets the equalizing benefits of REA financing and technical assistance. By its nonprofit operation it eliminates third-party profits from its rates, and through its own management it can control its own operating costs.

But the largest single item of expense is the cost of wholesale power, which accounts, on the average, for 43 percent of the distribution cooperative's total expense. Think about that! That is an item which cannot be controlled internally at all, yet is the largest single expense in a distribution cooperative's annual outlay of money.

Too many times we have heard the G&T program discussed as if it were something separate and apart from the mainstream of rural electrification. We hear it implied that the task of rural electrification is one of distribution only, that generation and transmission represents something foreign to the traditional concept of lighting up rural America, that it is somehow new and unnecessary.

The critics of the rural electrification program have seized upon this erroneous notion in their repeated proposals for either eliminating generation and transmission entirely from the REA program or, at the very least, charging a different and higher rate of interest on G&T loans.

We need to remind everyone interested in rural electrification that generation and transmission is part and parcel of rural electrification. REA finances generation or transmission only when it meets the requirements of one or more of three criteria, and every one of the three criteria are linked inseparably to the needs of the rural distribution systems in their efforts to do the job of rural electrification in a way that will achieve the objectives of the REA program.

First of all, REA financing is available for generating or transmission facilities when there is no other source of dependable power available to the rural distribution system serving the objectives of the REA program.

Although G&T loans under this criterion were more common in the early days of the program, we still make them in isolated areas. Only eight months ago I approved a loan to a cooperative on Swan Island off the coast of Maine to finance a 150 kilowatt generator. Two other cooperatives on islands off the coast of North Carolina also have received loans for small generators in the last two years. Situated as they are these cooperatives must supply their own power sources. There are no other sources to serve them. Without generating capacity their distribution facilities are useless, and the job of rural electrification does not get done.

Sometimes there is another power source, but because of long transmission distances and inadequate capacity it is an undependable source that cannot be relied on for satisfactory service. Here again the rural distribution system must have its own generating or transmission facilities in order to do its job of rural electrification.

These situations still require REA financing of G&T facilities, but as the REA program has developed and as the technology of the industry has developed, they do not predominate in the G&T program as they once did.

But there is a second criterion by which REA financing for G&T facilities is made available. This is tied strictly to cost and related directly to improving the ability of the rural distribution systems to make that parity rate for their rural users. We will finance G&T facilities when it can be shown that they will result in lower costs for the consumer than the cost of power from existing sources. It is here that the advantages of REA financing are so important that they frequently make the G&T program

itself one of the REA equalizers. The ready availability of long-term, low-interest financing for generation and transmission facilities exercises a powerful influence toward reducing the expenses of the distribution cooperative, for it is reducing the cost of the largest single expense item of the distribution system, wholesale power supply.

It not only reduces the cost of the power actually generated and transmitted by REA-financed facilities, but as a yardstick by which the rates of other suppliers can be measured, it encourages them to sharpen their pencils and offer better wholesale power contracts to rural electric systems.

And we have made substantial progress in reducing wholesale power costs for rural electric systems financed by REA. In 1941 the average cost was 10 mills per kilowatt hour. By 1963 it had been reduced to 6.8 mills. This represents average annual savings of more than $35 million for the rural people served by these systems over the Nation.

These two criteria for determining the justification of REA G&T loans have long been standard REA policy. Three years ago we added a third criterion. Many of you here today will remember that it was first publicly stated in my address at the Western Farmers Electric Cooperative annual meeting in Anadarko.

I announced then that REA was broadening its criteria for judging G&T loan applications to take into account certain factors other than availability of power and cost. The new policy issued after Anadarko stated that we would approve loans for generation and transmission facilities if those facilities were "necessary to protect the security and effectiveness of REA-financed systems."

Let me point out, however, that like the first two criteria, the third criterion finds its full justification in the assistance which the G&T facilities give to the distribution systems in their efforts to serve the rural people for which the REA program was conceived. We do not finance G&T facilities for their own sake. We finance them -- and you build them -- for the help they will give in bringing closer our mutual goal of parity electric service for rural people.

Prior to that announcement, the word security had a very limited definition in the REA program. When it was used, it usually meant only the security of the Government loan in a fiscal sense.

We are still concerned about that, but we also are concerned with another kind of security -- the security of all the locally-owned cooperative systems which have made rural electrification possible. Our concern is for their survival, their ability to remain where they are, and to continue to grow and do the job they have done so well thus far.

The Third Criterion speaks also of protecting the "effectiveness" of REA-financed electric systems. There are many aspects of wholesale power supply which are not covered by the quoted rate alone. The ready availability of power to serve large power loads that develop in the rural system's service area is vital to the effectiveness of the rural system in serving not only such loads but all other consumers as well. Those large power loads can contribute materially to more efficient use of the system and hence lower costs for all. So to be effective it must have assurance that it will have power sources dedicated to its best interests as a wholesale customer without threat of penalty, restriction or piracy.

If a rural electric system cannot enjoy such assurance in its relations with a wholesale supplier from which it purchases power, it must have the means to provide its own power supply, even at the expense, if necessary, of some temporary cost advantages. Otherwise it will fail in the long-range attainment of its objectives of parity service for its rural consumers.

And in the Third Criterion there is a place to consider the need for facilities which will increase the efficiency and effectiveness of the existing G&T systems themselves.

The loan which REA made for the construction of this facility we dedicate here today is justified in every sense of that word. It was made under our second criterion, and is clearly justified from a cost standpoint. But it might well have been approved under the Third Criterion, because it will help assure the continued effectiveness of Western Farmers in the years to come.

At the outset of the REA program, G&T financing was confined almost entirely to supplying small, isolated plants dedicated to the sole needs of a single cooperative. These were the early diesel plants, of great help in their day, but limited in their capacity and high in their cost of power production.

Although there still are isolated situations left in parts of rural America where the diesel generator still has a part to play, the main pattern of cooperative generation facilities now has evolved into a second stage of federation and limited interconnection.

Today virtually all REA-financed plants are interconnected in some way with other facilities. From the initial provision of emergency interconnection for standby purposes and exchange of economy energy, all of these systems have achieved in some degree joint use of facilities through parallel operation involving an interconnected transmission system. And in the development of generating facilities has emerged the federated cooperative G&T organization.

And now we are moving into a third phase, prompted by a rapidly developing technology in the electric industry. Rising costs of capital facilities must be countered by greater efficiencies and maximum utilization of investment. This means greater use of large-scale generation and far greater emphasis on pooling of resources, not only among cooperatives but with other utility systems, both public and private. We must look not only to local arrangements, but regional and even inter-regional power supply patterns.

To do less simply means that the rural systems will be deprived of the full benefits of an advancing technology and will fall behind the industry again in the struggle to give rural America a parity in electric service with the Nation's urban areas.

Because all of these arrangements will require high investment cost, the only way to achieve the low power costs which flow from them is through a much broader concept of joint use of facilities than we have previously thought of, to assure maximum utilization of this investment. All power suppliers are going to be looking toward participation in plans which will

assure the development of high load factor through the interconnection and pooling of plant facilities, application of power displacement principles, the integration of hydro and steam capacity, and access to the benefits of large-scale generation. To fully implement and take advantage of the tremendous benefits from this new technology, we must look beyond purely local or even sectional arrangements to broad regional cooperation.

The REA G&T program, as I said earlier, is controversial. Indeed, the whole REA program is controversial, for you cannot have an effective program of rural electrification without an effective G&T program. It is controversial; not everyone is for it. In fact there are some in pretty high places who are bitterly opposed to it.

I need only remind you that the man nominated for the Presidency of the United States recently at San Francisco has stated publicly that "REA in most states has outlived its usefulness" and that "when the local companies can move in, and find it profitable, then REA should move out."

However, I can assure you that this Administration believes in rural electrification. It believes in you. It believes in the REA program. President Johnson, as you may know, is a member of the Pedernales Electric Cooperative with headquarters at Johnson City, Texas. He helped organize that cooperative in 1938. He has supported it throughout his long and distinguished public service -- in the House of Representatives, in the Senate of the United States, as Vice-President, and now as President of the United States.

I would like to give you a few comparisons to show you what has happened in the field of rural electrification since January 1961.

Since then, and through June 30 of this year, REA made over $1 billion in rural electrification loans. In the earlier three and one-half year period of July 1, 1957, to December 31, 1960, REA loans for rural electrification added up to a much smaller figure -- $742.5 million.

In the 42 months just prior to June 30, 1964, REA made loans for generation and transmission totaling $536 million. In the similar period prior to 1961, G&T loans totaled only $297 million. These figures speak for themselves.

Under the three and one-half years of the Kennedy and Johnson Administrations, new consumers added through rural electrification loans totaled 490,000 or nearly a half million. This may be compared with 376,000 added in the three and one-half years prior to 1961. When we consider that the average family numbers about four people, we know that at least 20 million Americans today are receiving the blessings of electric power, thanks to the REA program.

This cooperative of which you are so proud was born of necessity in 1941 when Western Oklahoma cooperatives were unable to obtain power at a cost that farmers and rural people generally could afford to pay. Then came World War II, and it was not until early 1950 that the plant at Woodward was placed in operation. But once underway, Western Farmers made up the lost ground. Today your 12-member distribution systems serve over 53,000 consumers representing an estimated 250,000 people, and your total investment is valued at over $50 million.

You have built an institution here that is important to you and the future of rural Oklahoma. It is an institution of service, a key to greater opportunity for the quarter million of rural people it serves. This generating plant we dedicate here today is another step in its development.

Use it wisely and protect it against not only the onslaughts of the greedy but the equally dangerous onslaughts of the ignorant and misled. The task of rural electrification is not done, nor can it be done without the availability of generation and transmission facilities such as we dedicate here today.

REA and its borrowers throughout the country are making important contributions to the Nation's rising economy and our current stability, and in this way we are helping to move the countryside into the era of the Great Society where, as the President has said, "progress is the servant of our needs," and "where the meaning of our lives matches the marvelous products of our labor."

When I look at what cooperatives like Western Farmers already have done to help move us toward this Society, I have reason to be optimistic about the future of rural America. In the words of our President, "That future can be great."

###

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator,
Rural Electrification Administration, Before
1964 Regional Meetings, National Rural Electric
Cooperative Association.

(Sept. 10, 1964)

Toward Parity, Progress and Permanence

I have always regarded the opportunity to meet with you at the regional meetings of your National Rural Electric Cooperative Association as a real privilege. I know that this too is the feeling of all the REA staff people who participate in them. These are working sessions which give us an opportunity to work more closely with you in solving the problems we face together in this great program of rural electrification.

You may be interested to know that I have not missed a single one of these regional meetings of NRECA since I assumed my responsibilities as Administrator of REA, and this present series is the fourth time around. This occasion today is the fourth time I have spoken to you as Administrator at the annual meeting for this region.

I hope there will be a fifth.

Your meeting this year takes on a special significance, for this is a year of special significance. It is a year when far-reaching public decisions -- political decisions, if you please -- will be made as we, the American people, participate in the selection of a President and a Vice President of the United States for the next four years. These decisions will be of crucial importance in determining the future of the rural electrification program, to which you have given so freely of your energies and personal dedication.

- more -

In turn, you and the more than five million consumers directly served through the REA-financed rural electrification program will have an influential role and inescapable responsibility in determining what these decisions will be.

Part of this great democratic process is a public accounting of those who have been entrusted with the responsibility of Government. It is entirely appropriate, therefore, that a report be made to you at this time on the stewardship of this administration in rural electrification.

When we turned to John Kennedy and Lyndon Johnson four years ago to "get America moving" again, you looked to their new administration to get rural electrification moving again. With your help, it has. The re-energization of the REA program under President Kennedy and now under President Johnson is a matter of record for you to see and to judge.

Think back, if you will, to the situation which prevailed in 1960. Recall the doubts and uneasiness felt about the future of rural electrification at that time. Recall perhaps your own doubts about the future of the cooperative system you helped build, into which you had poured such dedicated hope, such effort in the face of seemingly impossible odds, and such faith in the justice of your cause.

The REA program had been slowly running down, losing momentum and direction, living on the glories of the past without sensing the challenge of the future. With the goal of area coverage seemingly accomplished to all practical purposes, there appeared to be no other beacon light by which to guide its daily course.

The consideration of the counting house had become the major concern. Rural electrification had become a banking operation rather than the great social program for the betterment of rural life it originally was and still should be. As a banking operation, it became a natural prey to public irritation over the interest rate, misunderstanding and resentment of your modest but growing financial resources, and a vague feeling that since the job of rural electrification seemed to be done, perhaps it was time to put an end to any further participation of the Federal Government in such activities.

Your National Rural Electric Cooperative Association was so busy fighting truly heroic rear-guard actions against the steady pressure for phasing REA out of rural electrification, it could do too little else. The enemies of the rural electric cooperatives patiently but confidently awaited the outcome. They did not need to send delegations in force before Congressional committees to urge the extinction of REA. They were confident it was already dying.

That was four years ago. Then in November of 1960 the American people made some changes in the leadership of the Nation. They elected a new President and a new Vice President. The importance of those choices from the standpoint of rural electrification's future and the future security of the cooperative systems you built to serve yourselves and your rural communities is to be found in what has happened since.

With your help we have given the rural electrification program a renewed sense of purpose.

We have rediscovered in the concept of parity of electric service for rural consumers the basic objective of the REA program.

We have refocused attention on the true justification of REA financing and technical assistance as necessary equalizers in overcoming the handicaps of distance, inadequate volume, isolation, and lack of load diversity which would otherwise make rural electrification impractical in many, many rural areas.

We recognized that the terms and conditions of power supply affect not only the operating costs of the rural electric systems, but their ultimate survival and effectiveness as well.

We frankly look to the preservation of the rural electric cooperatives as a necessary and permanent segment of the electric industry to keep the lights burning in rural America.

We look to their strengthening through the economic development of their rural service areas, the winning of territorial integrity, and the constant improvement of cooperative management.

These are the principles that have guided REA policy under this administration. We have supported these principles with a record of action which speaks for itself.

No administration in the history of the program has sought -- and secured -- as much budgetary support for rural electrification needs as has this administration. President Eisenhower's budget for fiscal year 1962, the last prepared under his administration, had in it only 145 million dollars for REA electric loans. This was the budget already prepared for the upcoming fiscal year when President Kennedy took office in January 1961. Time was short. The 1962 budget had to go to Congress for consideration. It did, but there also followed a prompt upward revision of over 34 percent in the recommended authorization for rural electrification loans, bringing the figure to 195 million

dollars. From there, President Kennedy went on to recommend 400 million dollars for electric loans in fiscal year 1963, and a record-breaking 425 million dollars for fiscal year 1964. In the four fiscal years for which this administration has made budget recommendations, a total loan authority of 1 billion 385 million dollars has been requested and one billion 585 million dollars secured, including contingency funds.

During the three-and-a-half years ending June 30 of this year, REA approved a total of more than 1 billion dollars for electric loans, 292 million dollars more than in the last three-and-a-half years of the previous administration.

REA-financed generation and transmission has been made more widely available than ever before in the history of the program. Since January 1961, less than four years, we have made G&T loans totaling 597 millions of dollars, more than all the G&T loans put together in the entire 8 years of the previous administration.

We have preserved the two percent interest rate -- and we intend to preserve it in the future to the full extent it is necessary to enable rural electric systems to provide parity of rates and service for rural consumers.

In 1961, the third criterion was added to REA policy for approving generation and transmission loans. As a consequence, REA policy now approves the financing of generation and transmission facilities in situations where the available sources of power are inadequate or unreliable, where REA-financed facilities would result in lower power costs, or where necessary to protect the security and effectiveness of REA-financed systems.

The first loan approved under the third criterion was made to the Alabama Electric Cooperative in July of 1962. It was bitterly contested by the Alabama Power Company. First, exhaustive hearings were held before the Alabama Department of Finance. Then, when the loan was approved by the Department of Finance, it was contested further in the courts, all the way to the Supreme Court of Alabama. On September 10, 1964, the Alabama Supreme Court rendered its ruling upholding the loan. The decision supports Alabama Electric Cooperative's right to build the vital generation and transmission facilities it needs in its struggle to survive and to do an effective job of rural electrification.

This is a great victory for the rural electric cooperatives in Alabama, for the REA program, and for rural America.

To focus the full technical competence of REA engineering on better planning of future power supply for REA-financed rural systems the Power Supply Division was re-established. Its purpose is not merely to process generation and transmission loans, but also to lead the way in modernizing the whole approach to the power supply problems of rural electrification, taking full advantage of the advancing technology of the industry, the economies of large scale generation and greater pooling of facilities with other power systems, public and private alike.

With this emphasis on more advanced power supply arrangements, utilizing larger scale generating units and wider pooling of facilities, the average power cost of the facilities for which loans were approved in 1961, 1962 and 1963 will be 8 mills, the lowest of REA's history. The average power cost for the G&T loans made in the previous three year period was over 9.2 mills.

- more -

We have waged an unremitting war on dual rates and other restrictive provisions to which many of our borrowers have been subjected in their wholesale power contracts. In 1961 there were 19 companies with such provisions in their contracts covering 189 separate contractual arrangements with REA borrowers. Today the number of companies is down to ten, and the number of affected contracts has been reduced to 118. And we are still at it.

The Model Territorial Protection Bill was proposed as a guide to local action in waging the all-important battle for territorial integrity in the states.

In line with the emphasis Secretary of Agriculture Orville Freeman has placed upon rural area development, REA has worked closely with its borrowers in the development of projects which not only improve the feasibility of local electric and telephone facilities financed by REA but also contribute to the overall economic health and progress of the areas they serve.

Significant changes in REA guidelines for the treatment and payment of consumer capital credits have opened the way to clarifying the true nature of cooperative operation in this field of electric service. They are demonstrating to the consumer-owners that they do in fact own their own electric systems. More capital credits are being paid now than ever before.

As the capital contributions made years ago are paid off, the cooperatives approach more nearly that distinctive situation of a true cooperative, in which the investor is also the consumer, and the consumer is the owner and manager. This identity of the consumer's interest, the investor's interest, and the owner's authority to direct the business -- unified in the same person -- is the basic reason why electric cooperatives do not need to be subjected to the usual form of utility regulation. The investor and the consumer in such situations do not have to go to a commission of some kind to protect their interests. They can resort to their rights as owners.

The orderly and sound revolvement of capital credits assists in clarifying this situation in each cooperative. It also strengthens the bond between the cooperative and its members as it demonstrates the value of nonprofit operation in the otherwise high-cost business of rural electrification. Thus in the clarification and liberalization of REA policy on capital credits, we are helping to unlock an important source of the inner strength by which cooperative rural electric systems must survive and grow.

Retail rate reductions represent another tangible evidence of the benefits of consumer ownership. Among REA electric borrowers, rate reductions have been increasing at a record pace since 1961. In fiscal year 1961, only 14 distribution borrowers made reductions. In 1962, 31 made reductions, and in 1963, there were 77. And during fiscal 1964, 111 REA borrowers adopted rate reductions. These reductions during the last three years total 219 in number, and amount to total savings to the consumers affected of more than 7.4 million dollars. These benefits are not only the fruit of your own management achievements but also a reflection of the renewed sense of purpose and direction in the rural electrification program.

The mounting criticism directed against the accumulation of reserve funds by REA borrowers has almost disappeared since REA established two years ago a reasonable and fully accepted level of general funds which can be regarded both as justifiable and necessary from the standpoint of a sound business operation.

No account of the advances we have made -- together -- in the improvement of management or in measuring up to the best potentials of good cooperative, nonprofit operation of rural electric service would be complete without including the 5-Star Member Service Program launched last year. Designed to help you make your own evaluations of the operations and effectiveness of your own cooperative system, it can be a great force, if properly employed, in the strengthening of the REA-financed rural systems.

All this has been involved in the task of re-energizing the rural electrification program. But like the job of rural electrification itself, it is not done. Neither our job, nor yours, is completed.

As we take stock of the many aspects of rural electrification, your objectives might well be described as Parity, Progress and Permanence. Our objective at REA is to help you achieve them.

You should be seeking parity of service and rates for the rural consumer so that neither the lack of nor the high cost of electric service shall remain a penalty imposed on people who live or seek their livelihood in the country.

You should be seeking progress in developing the strength of your rural systems through the basic equalizers of rural area development, territorial integrity, and management improvement. As you build such strength your need for Federal assistance will diminish. This is the true road to sound Government economy in rural electrification.

In connection with the possible development of an intermediate type of financing which I discussed with you at your NRECA annual meeting in Dallas last March, we have been making some studies of the progress our borrowers have made toward reaching the main objectives of the program.

We have approached these studies, as we approach the basic question of REA financing itself, from the premise that the job of rural electrification is three dimensional. Electric service in rural areas must be readily available to all. This is the implication of area coverage. It must be available under parity rates and conditions of service. And finally it must be available from sound strong systems which offer the rural consumers they serve full assurance

that the service will continue on into the future so they can count on it. This is the importance of the permanence already mentioned as one of your necessary goals. And this is the reason we must consider as a part of your financing needs your need for proper business reserves.

Any financing scheme which would force you to strip your reserves below prudent levels would be unsound, unwise, and inexcusable.

In our studies we are finding some startling things. With 98 percent of the Nation's farms getting some kind of central station electric service now, it is commonly assumed that the area coverage job is done. Yet the fact remains that there are still 74,500 farms without service and an uncounted number of other rural residents.

Our recent survey defined the achievement of area coverage as follows: (1) When all persons in the borrower's service area either are served or have service available without extra charges or payments for the construction of facilities, and (2) there are no unserved communities or areas outside the borrower's present service area that the borrower might be expected to serve. Using this definition, we found that only 50 percent of our electric borrowers have yet achieved full area coverage.

Comparing the rates charged by REA-financed rural electric systems for the first 250 and 500 kilowatt-hours with the rates paid by their city neighbors, we have found that only 12 percent of our borrowers have achieved this kind of rate parity for the rural residential consumers they serve.

On a national average basis, the residential rates of REA borrowers at the 250 kwh level -- in spite of the recent rate reductions on so many systems -- still are 24 percent higher than the average of rates in urban areas adjacent to your systems. At the 500 kwh level, the average of rates of REA borrowers is 19 percent higher than rates for comparable service in adjacent urban areas.

And looking to the need for developing a sound financial base for the rural system if it is to serve efficiently and offer tne promise of permanence and reliability to which rural consumers are entitled, we find that 57 percent of our electric borrowers have reserves of less than 15 percent of plant, the level we regard generally as appropriate for the sound business operation of rural electric cooperative systems.

Yes, there is still much to be done.

And do it we must. Rural electrification is far too important to the future of rural America, to all of America, for us to fail. President Johnson has spoken with great feeling about the Great Society which he envisions as within the grasp of our generation if we will but undertake to build it. He foresees more than a society of great cities; he has a vision of a great country as well. It would be a society where the land is well cared for, where the air is clean, the waters clear, and where all of the people can live safe, comfortable and happy lives on a standard that is commensurate with America's great capacities.

Rural electrification has a unique role in making such a Great Society possible. It has a vital role in the war on poverty. It has a vital role in helping to keep our young people in the rural areas where they were born and went to school. For electricity is not only important to living standards. It is a tool of economic growth and opportunity. Electric power, available on a parity with our urban communities, is essential to the full and equal economic development of rural America.

We are now in the midst of that great and priceless democratic privilege of selecting the Nation's President and Vice President as well as a new Congress. In 1964 just as in 1960, the future of the rural electrification program will depend upon the choices we make -- the choices you make -- in America's future leadership.

Let no one with a stake in the rural electrification program deceive himself with the notion that REA will go on about its business regardless of whom he sends to Congress or regardless of who sits in the White House in the next four years.

The Congress makes the laws of this land. The President is the Nation's Chief Executive. REA and the federal rural electrification program must be responsive to each in its proper way.

Let me remind you that the man nominated for the Presidency of the United States at San Francisco just a few short weeks ago has said bluntly, publicly and repeatedly that REA has "done its job" and "outlived its usefulness." He has also said, and these are his words, not mine, "when the local companies can move in and find it profitable, then REA should move out."

Can anyone seriously contend that the record of REA these past three-and-a-half years could have been possible if this point of view had been prevailing at the White House? This view holds no concern for parity of rural service. It considers the job done once the farms are hooked up to some kind of passable central station electric service. In this view progress will be measured only by the rate at which the commercial power companies take over and assimilate the rural territories. It denies completely any prospect of permanence for the systems you built. It holds that these systems were never intended to be more than stopgap devices to provide temporary service until the commercial power companies found it profitable to take over.

Fortunately there is another choice. President Johnson and Senator Humphrey have demonstrated over the years their belief in the purposes of rural electrification and the REA program. President Johnson was himself one of the founders of the Pedernales Electric Cooperative which brought the first central station electric service to his ranch in Texas. It still serves his ranch. Its headquarters are at Johnson City, Texas.

His administration is clearly and definitely committed to the strengthening of the rural electrification program through strengthening the cooperative systems you built so that parity, progress and permanence may be attained.

I feel it is my duty to make it clear to you with all the emphasis at my command that the future of rural electrification is at stake in your choice of America's future leadership in this year of 1964. Never has it been more clearly at stake. There is a choice. It is a choice you need not make on faith alone. Your faith has been supported by our deeds. But whether we can press on toward the goals of the Great Society in which rural America will find its rightful place, whether parity, progress and permanence of rural electrification will be possible to help attain these goals -- this must now be for you to decide. It is your responsibility -- and opportunity -- in America where through democratic government the will of the people becomes the law of the land.

###

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Highlights of the address of Norman M. Clapp, Administrator, Rural Electrification Administration, before Regional Meetings, National Telephone Cooperative Association, July - October 1964

1. Mr. Clapp declares that the continuing objective of the REA telephone program is to "achieve telephone service and rates for rural people comparable to those enjoyed by people in urban areas."

2. The Administrator tells directors and managers of telephone cooperatives that the cooperative approach is "desirable and necessary" in achieving the full service objectives of the program. "It is equally desirable and necessary," he says, "that we have the participation of the commercial companies in this program" . . . citing the necessity of efforts by all segments of the telephone industry in achieving a parity of service for rural people.

3. "As a general rule," he says, "non-profit cooperatives have taken upon themselves the toughest tasks in the rural areas, the areas that fail to attract risk capital." He says these areas are characterized by extremely low consumer density, low-income levels -- or by combinations of these conditions. Then he adds, "it is clear that if cooperatives had not undertaken the task of serving many of these areas they would not be served at all."

4. The Administrator declares that the REA program was designed to provide certain equalizers to help overcome the built-in handicaps of rural telephony. "The most widely discussed and perhaps most widely misunderstood equalizer," he says, "is long-term credit at the 2 percent interest rate." He asserts that Congress made it available (1) to offset the higher investment requirements per subscriber in rural areas; (2) to overcome the technical and economic problems in providing area coverage service; and (3) to assist the borrowers in developing a sound operating position. The other major REA equalizer, he says, is technical assistance provided the systems.

5. Mr. Clapp states that if rural America is to gain its rightful place in the Great Society envisioned by President Johnson, the "miracles of modern communication" must be made available to rural people. "The job is not done," he says, declaring that "we are still short of the goal of area coverage." . . . and that 24 percent of the Nation's farms still are "without telephone service of any kind."

6. Mr. Clapp declares that the most basic decisions determining the scope and capabilities of the REA program . . . are made by the American people. "We can work only within the limits of their mandate" he says, adding that the managers, directors and the one and one-half million people served by the REA-financed rural cooperatives "will have an important hand in shaping that mandate."

#

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator
Rural Electrification Administration, Before
1964 Regional Meetings of the
National Telephone Cooperative Association

It is always a privilege and a pleasure for me to attend the regional meetings of your National Telephone Cooperative Association.

I am especially happy that I could be with you today, for this year takes on special significance. It is a year of great public decisions, political decisions, if you please, which are bound to shape the future of the REA rural telephone program in which we are presently engaged together. It is a year of the Great Report when those to whom the American people have entrusted the responsibility of carrying on the Nation's business account for their stewardship as part of the great and priceless democratic privilege of choosing a President for the next four years.

When we turned to John F. Kennedy and Lyndon Johnson four years ago to "get America moving" again, that decision produced a number of extremely significant and important changes in the REA rural telephone program.

Perhaps you remember the serious concern you felt over the program and its future back in 1960. I do, for when I was designated by President Kennedy as his choice to be Administrator of REA it was your dissatisfaction with the telephone program that was first brought to my attention.

Let me just read to you one of the resolutions you adopted at your annual meeting in Dallas, Texas, in early February of 1961 as President Kennedy's administration took over its responsibilities in Washington.

-

- more -

"WHEREAS," you said, "the original purpose and intent of the Rural Electrification Act, as it applies to telephone, was to provide telephone service to rural America on an area coverage basis;

"WHEREAS, in recent years the policies of REA have deviated from this purpose;

"WHEREAS, NTCA believes that its members and other telephone cooperatives are willing and able to provide telephone service on an area coverage basis with the use of REA loan funds;

"NOW, THEREFORE, BE IT RESOLVED, that the incoming administration be advised of this situation and NTCA request that REA policies be revised to conform with the purpose and intent of the Act and that REA aid and assist telephone cooperatives in accomplishing this original purpose to a greater degree."

One of my first official acts as Administrator was to name a fact-finding committee to dig into the doubts and criticism that had arisen over the telephone program. This committee reviewed every phase and evaluated the development of the program from its legislative birth to current stature. What we sought and what we obtained was neither witch-hunt nor white-wash. It was a fact-finding inquiry.

In the early years of the program, between 1950 and 1955, cooperative development expanded rapidly. One hundred and eighty-four telephone cooperatives were organized as REA borrowers. Even more significantly, cooperative borrowers during those first six years of the program received 61.2 percent of the total loans approved to all REA telephone borrowers.

Then the picture changed, and suddenly. During fiscal years 1956 to 1960 only 51 new telephone cooperatives were added and they accounted for, not 61 percent, but only 26.5 percent of the total loans approved to all telephone borrowers in that period.

By fiscal 1961, the year that ended just five months after President Kennedy took office, the annual addition of new cooperatives had dropped to two. The loans made to cooperatives that year dropped to an all-time low of 21 percent of the year's total telephone loan program.

The development of new cooperatives was definitely at a standstill. But this Administration knew, as you know, that the cooperative approach is desirable and necessary if we are to achieve the full objectives of this program. In fact, there are areas and problems to which it is the only feasible approach.

Of course, it was equally desirable and necessary that we have the participation of the commercial companies in this program. REA wanted then, and wants now, to work with both commercial and cooperative borrowers, because we need participation of all segments of the industry if we are to achieve telephone service and rates for rural people comparable to those enjoyed by the people in the urban areas.

Acting upon the results of our study and analysis, we did revise our loan security requirements to encourage more local ownership of rural telephone facilities and to discourage the speculative trends showing up in the industry. The new policies, which are in effect today, require appropriate equity investment from borrowers not locally owned, screen acquisitions more carefully to promote an orderly expansion of local telephone systems, provide a more practical standard for financing acquisitions by cooperatives, and strengthen the mortgage by imposing additional financial controls to prevent the milking of REA-financed systems by speculative interests.

These new requirements, we are happy to say, have had the effect of materially stabilizing the REA-financed sector of the rural telephone industry. They also helped get the cooperative telephone program moving again.

During fiscal year 1964, which just ended on June 30, REA approved telephone loans amounting to $89,953,000. Of this amount, $38,691,000 or 43 percent, went to cooperatives. This represented the third straight year of increase in the percentage of funds going to cooperatives. And the growth of new cooperatives is on the increase again.

This is the record. These are the fruits of the changes that came in the REA telephone program as a result of America's selection of the Kennedy-Johnson Administration in 1960.

This has been a demonstration that it does make a difference who sits in the White House. It also makes a difference who represents you in the Congress. It did in 1960. It will in 1964.

We are indeed fortunate that the man in the White House today, President Johnson, knows so well the needs of rural America. He has been one of the staunch advocates of the REA program since its inception. He was one

of the pioneers of the REA electrification program. He helped organize the Pedernales Electric Cooperative which serves his ranch. Its headquarters are at Johnson City, Texas.

Throughout his distinguished career of public service he has supported the REA program -- in the House of Representatives, in the Senate of the United States, as Vice President, and now as President of the United States.

But let me add a word of warning. Not everyone is for REA. There are those in high places who oppose the REA program. Let me remind you that the man nominated for the Presidency of the United States only a few weeks ago at San Francisco has said publicly that "REAs don't need further expansion, the agency has done its job." He also said that REA has "fulfilled its original function. Now it should either be dissolved or revised so that it pays its own way."

There is the issue, clearly drawn, on which the verdict of the American people this year will have a profound influence. The future of this program and your cooperative rural telephone systems is at stake.

We know that the job of REA is not done.

We are still short of the goal of area coverage. There are still 24 percent of the Nation's farms without telephone service of any kind.

We are still short of the goal of providing available rural service that is fully comparable with urban service.

One of our principal objectives in the telephone program during the last three and one-half years has been the upgrading of rural service, as reflected in our switching from 8-party service as REA's preferred standard to 4, 2 and 1-party service. Let me give you just a few figures to show you our immediate objectives in this area. At the end of 1963, about 50 percent of the subscribers on REA-financed systems were receiving multiparty, or more than 4-party, service. Another 18 percent received 4-party service; 10 percent received 2-party service, and 22 percent were receiving single-party service.

By 1970, it is our goal to reduce the proportion of multiparty subscribers to only 20 percent, increasing the number of 4-party installations to 30 percent; the 2-party to 15 percent, and the single-party subscribers to 35 percent.

But look at the pace set for us in urban service. The Bell System has announced that it expects by 1970 to have 82 percent of its subscribers on single-party service, 15 percent on 2-party service, and only 1 percent on 4-party service, and 2 percent on multi-party service.

Nor is our job done in terms of rates for rural service. In providing a true parity of telephone service for rural people, we cannot overlook comparative rates. A basic objective of the entire REA program, both electric and telephone, has been to provide these vital utility services for country people on terms and conditions comparable to those on which they are enjoyed by city people. Neither the lack, the quality, nor the cost of telephone service should be a penalty imposed on living or doing business in rural areas. This is fundamental in equalizing the opportunities and progress of rural areas with those of urban areas.

First things must come first. Construction, area coverage, upgrading of service have to precede in some degree the ultimate effort to bring rates down to a true parity level, and you, more than anyone else, know why.

Today, even after some years of development, subscriber density per route mile for telephone cooperatives is 2.8. It is 5.5, or nearly double, for the commercial borrowers. Many cooperative systems average as few as 1.5 subscribers per mile. For independent companies which report to the United States Independent Telephone Association, subscribers average 15.9 per mile, and Bell System companies, by way of greater contrast, average better than 40 subscribers per mile.

As for annual revenues, the gap is even more pronounced. Cooperatives average out at $261 per mile; commercial borrowers at $571, or more than double that of cooperatives. For the Independents which report to USITA it is $2,284, or nearly nine times that of cooperatives. Comparable data are not available from the Bell System companies, but it is safe to assume -- with their large number of subscribers per mile and their substantial toll revenue -- that the figure is much higher.

These statistics serve to emphasize the very special role of cooperatives in carrying out the purposes of the rural telephone program. As a general rule, nonprofit cooperatives have taken upon themselves the toughest tasks in the rural areas, the areas that fail to attract risk capital. In so many cases, cooperative service areas are characterized by extremely low consumer density, rocky or mountainous terrain, low income levels -- or by combinations of these conditions. It is clear that if cooperatives had not undertaken the task of serving many of these areas, they would not be served at all.

The REA program was designed to provide certain necessary equalizers to help overcome these handicaps and make rural service feasible.

The most widely discussed and perhaps most widely misunderstood is the equalizer of long-term credit at the 2 percent interest rate. In providing REA loans at this rate, Congress recognized the need:

(1) To offset the higher investment requirement per subscriber in rural areas;

(2) To overcome the technical and economic problems in providing area coverage service;

(3) To assist the systems in developing a sound operating position.

The importance of the 2 percent interest rate to the feasibility of rural telephone projects is clear. Even with the favorable REA 2 percent rate, fully 15.1 percent of local service revenues of REA-financed systems in 1962 went to meet interest charges. For all independent companies, including REA borrowers, a comparable national figure in 1962 was only 10.7 percent. Even with a 2 percent interest rate, REA borrowers are laboring under an interest charge handicap. The rate of interest charged on these loans definitely affects the ability of borrowers to meet program objectives while keeping telephone rates within a range subscribers can afford to pay.

The other major REA equalizer is technical assistance provided in system engineering, accounting and management. One phase of this assistance has been the training and development of borrower management personnel to meet the expanded demands on the local system. Another has been in development of

standardization in equipment, materials and construction. REA has worked with the industry and with manufacturers in developing standards specifically designed for rural systems and in promoting assembly-line principles in construction. Materials and equipment designed to REA specifications are accepted throughout the industry. It is estimated that for every dollar REA borrowers spend for these products, others in the industry buy three dollars worth.

REA efforts in the field of technical assistance have not only been directed toward better service but also at lower cost, for this is a fundamental answer to the handicaps of low density and high capital investment requirements.

In 1957, the cost per circuit mile of outside plant on REA-financed systems was $241. By 1963, we had managed to bring this figure down about 50 percent, to only $122. Our objective for 1965 was a bold one -- down to $100 per circuit mile. Now we are pleased to report that a review of the data REA already has on hand shows that we will reach this goal this year, in 1964.

Much of this progress in reducing construction costs can be traced directly to improvements in the design and application of buried plant. This field continues to offer the possibility of revolutionizing the entire industry with respect to better service at lower cost. We can obtain some measure of our success in this field when we realize that last year, fully two-thirds of all outside plant installed by REA-financed systems went underground.

This step forward has enabled borrowers to cut in half the cost of constructing telephone lines. Furthermore, it reduces the number of troubles by 90 percent as compared with open wire. And not least, buried plant means an end to catastrophic plant damage from such hazards as wind, ice and snow, floods and lightning.

The development of improved underground cable and other buried plant equipment ranks high on the list of important REA accomplishments since January 1961 -- important because these savings eventually will be passed on to the rural subscriber in the way of lower priced telephone service as well as improved service.

These improvements move the day a little closer when single party service can be the goal for a majority of rural telephone systems, and the rural subscriber will be another step closer to achieving a parity of service with that of the people who live in the city.

This Nation, with a population today of more than 190 million people, has about 84 million telephones in service. It is now estimated that there will be 115 million telephones in the United States by 1975, with the independents and cooperatives financed by REA sharing in this rapid growth and progress.

As we enter this period of increased activity, it would be well to remember that the business of rural telephone cooperatives is service to rural people. We must never lose sight of the fact that we are part and parcel, not alone of the telephone industry, but of the REA program a

program that represents much more than the enterprise of a single firm or cooperative. The REA program represents a national policy in action. We are involved in a program which was acknowledged to be in the national interest by an Act of Congress. Therefore, we face a special responsibility for service.

It is important that all of us understand this responsibility as we seek to carry out our missions in rural America. Our program represents some cost to the American public, and the public must be made aware of what we are trying to accomplish, why, and how. We need to sharpen our thinking as to these purposes and to speak clearly in telling our story to the American people.

These last three and one-half years have been years of progress in the REA rural telephone program. And now we have reached another year of decision in which the record and policies of government go before the people for their stamp of approval or disapproval. The REA program is no exception. It will be affected by the verdict of the American people in this year's elections. The most basic decisions which determine the scope and capabilities of the REA programs are not made in REA -- they are made by the American people through the democratic processes. We can work only within the limits of their mandate. You and the one and one-half million people served by the REA-financed rural cooperatives will have an important hand in shaping that mandate.

President Johnson has spoken in graphic terms of the Great Society which he envisions for the America of the future where "progress is the servant of our needs," and "the meaning of our lives matches the marvelous products of our labor." The miracles of modern communication, essential to modern living and vital in modern business, are needed to give rural America its rightful place in the Great Society.

Toward this end may we continue to work together, steadfast in our objectives and true to our purposes.

#

0

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator, Rural Electrification Administration, Before REA Borrowers' Section, United States Independent Telephone Association, Los Angeles, California, October 20, 1964.

OPPORTUNITIES FOR GROWTH IN RURAL TELEPHONY

It is indeed a privilege for me to meet once again with so many leaders of this dynamic Independent telephone industry and to discuss with you some of the special challenges and opportunities which confront us in the field of rural telephony.

It is now 15 years since Congress authorized a program of loans for rural telephone systems and authorized REA, which up until then had been exclusively a rural electrification agency, to administer the new program. Since 1949, REA and its telephone borrowers have been able to accomplish a great deal, and I think we all have learned a great deal as well.

We have learned, for instance, that while there are striking similarities in the problems of providing rural areas with the telephone and electric service there are likewise important differences.

In the early days at least, a rural electric system could be planned as a self-sufficient entity, generating its own power on a small diesel generator and distributing it directly to consumers. In the telephone business, however, each company had to have compatibility with the larger connecting companies and play its part as a component in a vast communications network. An isolated system in the telephone industry could only do part of the job expected of it.

Unlike the electric program, in which REA financed new systems to serve areas that had never been served before, the agency found that in the telephone industry in most states, responsibility for telephone service, at least on paper, had generally been assigned to someone by the regulatory commissions. Nearly four farms in ten in 1949 had some kind of telephone, and REA therefore had to seek out and work with existing companies and mutuals willing and able to rehabilitate and extend rural systems which had been in existence for many years.

It was due in part to this difference in the extent of rural territorial coverage and to the willingness of the independents to work with REA that the pattern of rural telephone borrowers is so different from that of REA electric borrowers. In its electrification program, our agency has numbered 994 cooperatives as borrowers and only 24 power companies. Only three power companies are active borrowers today. In the telephone program, there are 616 independent commercial companies and 222 cooperatives. It should be with considerable gratification that so many of you who have spent a lifetime in telephony can now point to your record in improving and extending rural telephone service. We share your pride in your accomplishments. We are glad we could be of help to you.

- more -

There is another difference with a strange twist. One of REA's continuing battles in the electric program has been to bring the cost of power down for rural Americans. In 1935, we found rural rates as high as 25 cents per kilowatt-hour; today the national average on REA-financed lines, as costs have come down and usage has gone up, is 2.33 cents per kwh. In rural telephony, the initial problem was not high cost. It was completely inadequate service. In the rural counties of some states, a tariff of one dollar a month was not uncommon for switcher service, but the service available for that dollar was next to nothing. Our immediate task in rural telephony has been not bringing existing rates down, but bringing the quality of service up.

When the opportunity to get modern dial service was presented, the price, of course, had to go up. But when farmers and other rural subscribers found that they could get quality telephone service, they accepted higher rates, realizing that they were justified by the large capital expenditures required to rebuild whole systems. Local rates of $6 per month for multiparty rural service are not unusual today, and the higher rates are producing higher gross revenue figures and better net than some of the people in the small companies dreamed possible. This has been a highly satisfactory change for a segment of the industry which was accustomed to the attrition of constant belt-tightening.

These are but a few of the sharp differences between rural electrification and rural telephony which became apparent to REA as it assumed responsibility for the new loan program 15 years ago.

But, as I said, there are certain similarities too, similarities which should not be ignored.

One thing they have in common is that both electric and telephone service are essential to the growth and economic development of the modern rural community, just as they are essential to life in our towns and cities. It is inconceivable that the modern family farm, with its enormous investment in machinery, its dependence on services provided by others, its dependence on ready communication with its market, should be denied the use either of electric power or of modern telecommunications. The same is true of our fast-growing rural businesses -- our mines and food processing plants, our pipeline pumping stations and lumber mills. Electric power and dial telephones are not conveniences for such enterprises; they are necessities of operation.

This is why we say that, despite the obvious differences between the telephone and electric industries, the real objective of both programs can be expressed in the same sentence; that the goal is electric and telephone service for rural people under rates and conditions that are comparable to those available to town and city people -- a parity of electric and telephone service for rural people and rural communities.

No matter what the general level of prosperity -- and that level has never been higher than it is in the United States today -- our economy is not operating at anywhere near its capacity so long as much of our rural life is blighted by poverty or lack of opportunity. Too many rural sectors have been handicapped in the fast pace of economic development by the lack of, or the high cost of, electric and telephone service. If rural America is to participate fully in our future economic growth, it is essential that these utility services, which in large measure represent tools for farm improvement and for commercial and industrial development, be provided to rural people at a parity with town and city rates and conditions.

Parity is essential, not only to the development of better living standards for rural people, but also to the development of equal economic opportunity in rural areas.

And we face certain inherent handicaps in providing both electric and telephone service in rural areas. We face the handicap of low consumer and subscriber density per mile, and the resulting low revenue per mile.

Today, even after several years of progress, subscriber density per route mile for all REA telephone borrowers is only 4.5. For all the independent companies which report to this Association, the average is 15.9 per route mile. Bell System companies, by way of greater contrast, average better than 40 subscribers per mile.

Our borrowers face the further handicaps of difficult terrain, which frequently adds to construction costs, and higher maintenance costs stemming in part from greater exposure to the elements. They also lack those large power loads, like factories, in the electric program, and, in the telephone program, such lucrative concentrations of subscribers as we find in urban apartment and office buildings.

I mention these handicaps to emphasize that the task of rural telephony, like the job of rural electrification, is much more difficult to accomplish on a financially feasible basis than the task of providing utility services in a city. It was in recognition of these special difficulties that Congress in 1949 passed the telephone amendment to the Rural Electrification Act. It wrote into that Act certain equalizers which it deemed necessary to help borrowers overcome these handicaps.

One major REA equalizer is technical assistance provided in system engineering, accounting and management. One phase of this assistance has been the training and development of borrower management personnel to meet the expanded demands on the local system. Another has been in development of standardization in equipment, materials and construction. REA has worked with the industry and with manufacturers in developing standards specifically designed for rural systems and in promoting assembly-line principles in construction. Materials and equipment designed to REA specifications are accepted throughout the industry. It is estimated that for every dollar REA borrowers spend for these products, others in the industry buy three dollars' worth.

REA efforts in the field of technical assistance have not only been directed toward better service but also at lower cost, for this is a fundamental answer to the handicaps of low density and high capital investment requirements.

The most widely discussed and perhaps most widely misunderstood REA equalizer is the long-term credit made available at the 2 percent interest rate. In providing REA loans at this rate, Congress recognized the need to overcome the technical and economic problems in providing area coverage service. This was principally a need to offset the higher investment requirement per subscriber in rural areas. Congress further recognized the need to assist the rural systems in developing a sound operating position.

The importance of the 2 percent interest rate to the feasibility of rural telephone projects is clear. Because greater amounts of capital are required in relation to revenues realized, even with the favorable REA 2 percent rate, fully 15.1 percent of local service revenues of REA-financed systems in 1962 went to meet interest charges. For all independent companies, including REA borrowers, a comparable national figure in 1962 was only 10.7 percent. Even with a 2 percent interest rate, rural telephone systems are laboring under a capital cost handicap. The rate of interest charged on these loans definitely affects the ability of borrowers to meet program objectives while keeping telephone rates within a range subscribers can afford to pay. There is no question about that.

These equalizers in the Rural Electrification Act -- the equalizers of technical assistance and favorable loan terms -- are the same for both REA loan programs. This is not because Congress failed to recognize important differences between the electric and telephone industries. Congress provided the same equalizers for the telephone program in 1949 that it did for the electric program in 1936 and 1944 because it recognized, first, that both programs face similar handicaps in providing rural service; second, that both services are so important to peoples' lives and livelihoods it is in the national interest to make them both available in rural areas on a par with city service; and third, that technical assistance and low-cost capital can open the door in both instances to the achievement of this objective.

The favorable financing available through REA is not an idle gift. It is neither pork barrel nor public pap. It is a proffered tool to get a job done in the public interest. It is provided in consideration of your undertaking to get that job done when without it you would not -- and could not afford to -- do it. It should be used only -- but fully -- to the extent necessary to accomplish the purposes for which it is provided.

Both the need and the use of REA financing with the present 2 percent interest rate should be judged strictly on this basis. What others pay for capital -- others who do not undertake this job -- is really beside the point.

The question is not what others pay who do not undertake the responsibilities of striving for parity of rural telephone service. Nor is it what you would or could pay if you were to hedge or shirk your responsibility for achievement of these purposes. The real question is to what extent it is necessary to get the job done.

We in REA welcome its evaluation on this basis, and I think you do too. We wish everyone did. The discussions on the REA interest rate would be more fruitful if they would clearly recognize its basic purpose.

The need for REA financing will only be reduced in the long run by growth in the rural systems. With growth will come greater strength. Greater operational and financial strength of the individual borrower will in turn diminish the need for the equalizer assistance of the REA interest rate.

So an aggressive policy for growth is not only good business for you; it is the real road to sound Government economy in the REA program for rural telephony.

REA program objectives and your opportunities for growth go hand in hand. Parity of telephone service for rural areas implies its full availability to all. This is the area coverage objective. There are still obvious opportunities for growth in this direction.

Today REA telephone borrowers are serving approximately 60 percent of the establishments in their service areas and this figure is rising steadily. Development is presently lowest in the Southeast and highest in the North Central States, but it is an interesting fact that the rate of increase of new subscribers during the past year has been highest in the Southeastern States.

There are about 4.2 million unserved rural dwellings in the United States. A sizable portion of these are in territories for which REA borrowers have accepted service responsibility, and the rest are in areas assigned to the Bell companies and independents which are not REA borrowers. There are still more than 1,800 independent systems that are not using REA financing and not taking advantage of REA's now considerable fund of technical assistance. Here are opportunities for growth waiting to be tapped by someone.

Parity of rural service not only involves the availability of service to all, but it implies also that the service available must be of a kind and quality equal to that available to urban subscribers. This translates into the practical challenge of upgrading rural service.

As the rural subscriber's time -- whether he be farmer or shopkeeper or commuter -- becomes increasingly valuable, we can expect to receive mounting demands for upgraded service. As the population grows and as the suburbs push farther into the farmlands, the need for expansion of your systems may become acute. As that happens, we urge REA borrowers to study their entire system so that expansion and upgrading can be achieved at the lowest possible cost. The best time to upgrade service is when system expansion is undertaken.

REA now recommends 4-party flat-rate rural service as the preferred standard outside the base rate area. With new developments in materials, equipment and design, it is now possible in converting manual exchanges to dial to provide 4-party service at about the same cost that was required for 8-party service in 1956.

Some rural areas already are getting 1- and 2-party graded service on entire systems. Based on market forecasts of all borrowers with current loan applications, it appears that by 1970 some 35 percent of their subscribers will be taking single-party service. Fifteen percent will be taking 2-party service by that date.

Sixty-four percent of the Bell System service in 1962 was single-party. That was about 42 percentage points above 1949. It plans 87 percent 1-party service in 1975, with complete elimination of multiparty service as the ultimate objective. This is the pace set for us as we strive to provide rural people with a parity of telephone service.

Our objectives not only include parity in quality of service but also, as rapidly as possible, parity of cost to the rural consumers. Here the technical assistance of REA has teamed up with favorable financing in a dramatic record of progress. And in this struggle for high quality and low-cost service there are likewise great opportunities for growth. They are the opportunities of greater use -- more intensive use of local service through extension phones and supplemental equipment and greater use of long distance service.

Upgrading service moves from possibility to reality for your system due to technical development in the industry. REA has worked with manufacturers and suppliers from the very beginning of its telephone program to acquaint them with the special requirements for plant designed for rural service. And the systems which use REA financing have cooperated by field testing many of the new developments. As a result of this teamwork, you are able to benefit from such new engineering concepts as all-insulated aerial plant, buried plant, subscriber carrier, and many others.

In 1956, the average cost per circuit mile of outside plant for REA-financed systems was $241. By 1963, we had managed to bring this figure down to $122. With continuing advances in technology, including buried plant, we set $100 a mile as an objective for 1965. We have made progress faster than we had expected, and a preliminary review of outside plant bids for REA borrowers' construction for the first six months of 1964 indicates the cost is down to $115 already.

REA has calculated that in the areas presently served by REA borrowers, there is an average of only 20 telephones per 100 of population. This is still considerably below the United States average of 43 telephones per 100 population. Here is one of the opportunities for growth in rural telephony. Here is an opportunity for aggressive telephone service merchandising, if the quality is good and the price is right.

High rates for local service scare away potential subscribers. And high rates for local service is not the answer to total revenue requirements. Potential subscribers who hold back from installing a telephone because of high local service rates are certainly in no position to offer much toll call revenue. Low rates for local service put the maximum number of subscribers on the lines and offer the maximum potential for toll revenue. The effect of toll revenue deserves more study in forecasting gross revenues and net margins.

There is much to be said for 1-party service as an opportunity for growth in rural telephony. Studies by the Bell System reveal that 40 percent of all toll calls originating from a subscriber's residence are impulse calls. The fewer the number of subscribers on the line, the greater the toll-calling rate per subscriber.

Among REA borrowers, toll revenues have been rising steadily since the beginning of the program. In the early 1950's, net toll of $12 per year subscriber was typical. By 1963, the median was up to $29.51.

Guidelines in designing and reviewing local service rate schedules, and support in securing better toll revenues in connecting company contracts, are REA services to borrowers. Schedules must be approved by State regulatory bodies having jurisdiction, of course, but in working with borrowers we recommend rates which will encourage maximum development, produce adequate revenue, be equitable and easily understood, and be readily administered.

That the 838 independent companies and cooperative associations with REA loans benefit from such counselling is borne out by the following figures from their operating reports:

. The average operating revenue per subscriber increased each year from $81.52 in 1959 to $103.37 in 1963.

. The average net margin per subscriber increased each year from $3.67 in 1959 to $10.34 in 1963.

. Average net worth as a percentage of total assets is moving up for these systems. And they continue to repay their loans, with interest, on schedule, and even ahead of schedule.

With such operating trends, showing steady gains in revenues, in net margins, and in net worth, the possibilities for upgrading service should be studied with an eye for growth opportunities. Upgrading and the objective of single-party service may well be the greatest challenge before the independent industry today and in the years just ahead. Current guidelines for system development among borrowers of REA funds propose substantial upgrading. This has come about in part from the shift in rural living patterns, and in part from the rapid development in telecommunications technology.

It is axiomatic that people use the telephone more when they have the convenience of dial systems and lines over which they can hear clearly. The average rural subscriber now makes three times as many calls over the telephone as he did when he first welcomed modern dial service. In practical terms, this means that with today's service on an 8-party line it is harder to get the line than it was when 20 parties shared a line but used it less.

These are the opportunities for growth in rural telephony.

- more -

In the rural telephone program, as in the rural electric program, we in REA look to the strengthening of the companies and systems which serve, to make them better able to bring parity of service to rural areas and at the same time become less dependent upon the special assistance REA has to offer.

In the rural electrification program we see the possible evolution of rural electric systems through three distinct stages. The first stage is the basic stage in which the handicaps of rural service clearly require the cost equalizing effects of present REA 2 percent financing if borrowers are to be able to provide parity of service for rural areas. It is to be hoped that through growth coupled with necessary protection of their service territories they will eventually be able to attract adequate financing in the private money market. But in between the first basic stage and this ultimate goal there is probably an intermediate stage in which rural electric systems will still have to rely on REA for their capital needs but will have progressed far enough to be able to pay a rate of interest equivalent to the Federal Government's cost of money.

We are currently engaged in a study to determine whether such a new kind of REA financing can be successfully developed and applied to borrowers in this stage of development. It would not be a substitute for the basic 2 percent financing. This would continue to be available for those borrowers requiring it to accomplish the objectives of the REA program. It would be an added type of financing, allowing the borrower greater financial flexibility but bearing a higher rate of interest. It would be provided for those borrowers who could afford the higher rate without jeopardizing REA program objectives.

Although I am sure that if such an intermediate type of financing is found feasible for REA-financed rural electric systems, it will certainly have potential future application to REA-financed rural telephone systems; we are considering it at this time solely from the standpoint of its application to rural electric systems. The reasons are simple. The REA electric program has had more time to mature. It started in 1935. Many of REA's electric borrowers have been working with us more than 25 years. The telephone program did not start until 1949, and most of our telephone borrowers have barely made a good start.

We are therefore making no comparable study specifically directed toward the REA telephone program, but both we in REA and you in the telephone industry will want to be alert to any new type of intermediate financing which may have desirable future application to the telephone program.

While conceding that, let us guard against hasty conclusions. REA financing has brought modern service to millions of rural people who would not otherwise have it today. It has saved a place for hundreds of companies in the independent industry. It has given -- and still does give -- independent companies an alternative to extinction or assimilation.

All this is important to a great many American people. It is true we look to growth in rural telephony and growth will undoubtedly bring change, but it should be carefully weighed and painstakingly planned. The very prospects of progressive growth can be destroyed overnight if we are not careful.

I can assure you that the present administration in Washington strongly supports this program. The record of the past four years proves it. Telephone service, together with rural electrification, are keys to better rural living and to economic growth of this Nation's rural communities. When President Johnson speaks of the Great Society, I am sure he is speaking of a society that uses the telephone -- and has telephones for everyone to use, in the country as well as in the city. The opportunities for growth that are within the reach of your telephone system and the rest of the independent industry are also opportunities for the growth of all rural America.

Pat political nostrums and the sweeping generalizations of those who contend REA has outlived its usefulness, the unthinking and uncaring verdict on 2 percent financing for rural service by those who are only casually concerned with rural service, are today the greatest threats to your continued progress and opportunities for growth.

###

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator,
Rural Electrification Administration, before the
23rd Annual Meeting of the National Rural Electric
Cooperative Association, Miami Beach, Florida,
January 26, 1965

Is Our Program Adequate to Meet the Needs of Tomorrow?

I am pleased to be with you again at your great national annual meeting. It is always an inspiration. To even the casual observer, the sheer size of this meeting is impressive in representing as it does the extent and magnitude of rural electrification in America. However, even more impressive to those who know the character of your deliberations is the serious purpose they always demonstrate. Eight thousand strong here today, you represent the interests of over five million consumers served by nearly one thousand rural electric systems. Although the cooperatives you serve and represent are private enterprise, you are engaged in a great public service to rural America. You have accomplished great things in the past, and the Nation looks to you to accomplish even greater things in the future.

The rural electrification program developed by your joint efforts with your Federal Government through the Rural Electrification Administration passes its 30th anniversary this year. In those 30 years it can be given major credit for unlocking the door to rural America's true potential -- both for better living and greater economic development and opportunity.

But as the theme of your conference indicates, you are concerned here today not with yesterday but tomorrow. You are undertaking today the consideration of decisions necessary to prepare for the problems of tomorrow. It is in this spirit that I come to speak to you this afternoon.

As we attempt to look into the future and anticipate what it may require of us in this program of rural electrification, we must face a fundamental question. Is the rural electrification program as we know it today going to be adequate to the needs of tomorrow?

Will it be adequate to match the purposes of the Great Society?

Will it be able to meet the needs of a rapidly growing America?

Will it be able to keep rural America in step with the march of technology in the electric industry?

- more -

President Johnson has spoken eloquently of the Great Society which he sees in America's future destiny. It will be a society of liberty and justice. It will be a society free of want and full of opportunity. It will be a society, however, not merely of material goals but of spiritual and cultural values.

Above all, it will be a society of all America and for all Americans. It must include rural America. It must be a society of good farms as well as great cities. The foundations of Main Street must be as sound as those of Wall Street. Quality of life and opportunity for progress must be as widely attainable on the farms and in our rural communities as they are in urban communities, for there can be no truly Great Society if rural America is left behind.

Achievement of the purposes of the Great Society will require a very real parity of opportunity for rural people -- for people making their living on the farm, for people in need of off-the-farm rural employment, and for those who have been caught in the hopeless cycle of persistent poverty. It is a cruel but inescapable fact that while only one-third of all Americans live in the country today, half of the Nation's poverty is in the rural areas.

We cannot boast of urban prosperity while there is rural depression; we cannot be confident of our Nation's economic strength while there is weakness in the rural sector.

The attainment of the goals which the President has set for us will require the best efforts of all patriotic Americans, but it poses particularly stern challenges for leaders in rural areas. For as we know, from the days of privation for the early pioneers to the present day, rural people have labored under special handicaps. Always there has been the handicap of isolation -- isolation from one another, from centers of information and culture, from centers of trade and opportunity, and from sources of capital for growth and advancement.

As our modern industrial civilization has developed, bringing with it great increases in material wealth to our society as a whole and making possible higher living standards and greater comforts and conveniences, these rural handicaps have never been more dramatically demonstrated than in the struggle to bring the blessings of electricity to rural people and their communities.

Today the initial phase of the task of rural electrification, that of reaching rural people with the physical facilities of service, is being successfully accomplished. Thanks in large measure to the efforts of you people here, electricity is available now in all parts of rural America to help us get started in building the Great Society. But there still remains before us the continuing challenge of making electric service -- and telephone service as well -- available under conditions of parity.

In examining the roles to be played by rural electric cooperatives in bringing about the Great Society in America, there is, it seems to me, no challenge so urgent, so demanding, as this need to achieve parity of rural rates and service with urban rates and service.

Too many rural sectors in the United States have been held back from the fast pace of economic development in this country by the high cost of such essential services as electric power or the lack of availability of modern telephone service. If rural America is to participate fully in our future economic growth, if rural people are to share in full measure in the kind of abundant society envisioned by our President, it is imperative that these utility services be provided to rural people under terms and conditions comparable to those available to people living in our towns and cities. For parity electric service, and parity telephone service as well, are not only essential to the achievement of better living standards in rural areas, but they are also essential tools for commercial and industrial development. They are basic to the development of equal economic opportunity in rural America.

The critical importance of electric power to economic growth and the close relationship between economic growth and the need for expanded electric facilities require us to take a long hard look at the capital resources which may be available for the expansion of rural electric facilities in the years ahead.

We know that the capital requirements of REA-financed systems will increase enormously in the years ahead. The best estimates available to us indicate that between now and the end of 1980, all of the electric systems of America -- cooperative, commercial and public -- will require more than 140 billions of dollars of new capital for expanded plant facilities to meet the growing demand for service. The capital requirements in the year 1980 alone for the American electric industry may reach the high figure of $13.7 billion.

And what will be the rural share of this tremendous capital demand? We estimate that REA borrower systems may need as much as $8.1 billion in new capital between now and the end of 1980, and that the requirements during the year 1980 may reach the figure of $675 million.

This capital will be needed for a number of rural system purposes. First, it will be needed to provide facilities for new consumers, presently being added to REA borrower lines at the net rate of about 125,000 per year. Capital also will be needed to provide the additional facilities needed for system improvements and to provide increased capacity to carry the expanding loads of present consumers. During the last decade, the average use of electricity among rural residential consumers -- including both farm and nonfarm population, has risen from 223 kilowatt-hours per month to 425 kwh per month.

Additional future capital also will be needed to cover the higher costs of plant replacements, resulting not only from the general increase in price levels, but also because of the higher unit cost of making replacements at various locations in a system's area, as compared with the unit cost of initial, down-the-road construction. The installed cost of the replacement unit, particularly with respect to the poles, towers and fixtures which make up nearly 35 percent of distribution plant investment, is likely to be several times the installed cost of the pole being removed from service.

And beyond this, there will be the capital needed for new and expanded generation and transmission facilities.

Over the past history of the REA program, the annual increments of new capital made available to the rural systems through REA have averaged $208.5 million. The low year was fiscal year 1943 when only $10 million was authorized by the Federal Government for electric loans. The high year was fiscal year 1950 when the Congress authorized a total electric program of $500 million. The authorization for the present fiscal year is $365 million, including a $90 million reserve authorization. These figures, while impressive and important, nevertheless fall short of the $600 to $700 million level which future needs may well require.

When we look to tomorrow's needs and try to appraise the adequacy of today's capital financing available to rural electrification, we face more than the problem of total dollars required. We face, too, the problem of historical restrictions on the use of present REA financing.

The basic 2 percent financing now authorized under Section 4 of the Rural Electrification Act is strictly limited to the financing of facilities "for the furnishing of electric energy to persons in rural areas who are not receiving central station service." Under this authority, the Administrator of REA has been able to finance not only facilities for the initial and sole service of persons who fit this description, but also subsequent facilities for expanded service to such defined beneficiaries of the Act and even facilities which do in fact provide some incidental service or benefit to others. All this has been essential to an effective and feasible program and the development of rural system efficiencies, as the pooling of facilities among power systems has become more and more a requirement of sound utility operation.

But even with the eminently reasonable and fully legal interpretation of this authority which has made these adjustments possible, REA practice has been confined to certain limits which are now running head-on into the need for still greater flexibility if rural systems are to achieve the major economies offered by the industry's advancing technology.

Most dramatic of these economies is the economy of large thermal generating units, backed by the new capabilities of extra high voltage transmission.

It was less than seven years ago that REA made its first loan for a 100,000-kilowatt, single unit generating plant. It was as recently as last October that REA made the first loan to finance a 300,000-kw single unit plant, the largest we have financed to date. Yet we know that as industry standards go today, these are not exceptionally large units, and it takes no prophet to foresee that by 1980, one million-kilowatt plants will be commonplace in the United States. The industry already is considering the savings available from mammoth steam plants burning fossil fuels with capacities of 1.5 million or 2 million kilowatts. Also by 1980, it is anticipated that large nuclear plants will account for an important share -- some predict 13 percent -- of the Nation's installed generating capacity of about 525 million kilowatts.

Before World War II, the largest transmission line in use in this country was a 287-kilovolt line from Boulder Dam. It was about 20 years before any higher voltage lines were built. Then in the early 1950's both a power company and a Federal agency built the first 345-kilovolt lines. With the development of those first extra-high-voltage lines, many in the industry began to experiment with EHV, and both manufacturers and utilities undertook tests of materials, lines and stations on lines up to 750-kv.

Today these exhaustive tests have proved the practicality of 500-kilovolt transmission, not just on a line or two, but throughout a whole operating system. Two commercial companies already have built 500-kv systems and TVA has one under construction, which will connect its system with the Southwest Power Pool.

But this is only the beginning of the EHV story. One commercial utility already is projecting the use of 700-kv lines as a backbone for a 345-kv system, and 1,000-kv lines are being discussed by industry people as a possibility by 1975 or 1980.

As a result of this march of technology, the American electric industry is talking about the construction of extra-high-voltage transmission systems which will interconnect all the electric suppliers of the Nation. Now interconnection is nothing new to rural electric cooperatives. Today virtually all REA-financed plants are interconnected in some way with other facilities. From the initial provision of emergency interconnection for standby purposes and exchange of economy energy, substantially all of your systems have achieved in some degree joint use of facilities through parallel operation involving an interconnected transmission system.

But the tide of technology is sweeping your systems into a new phase, a phase which will require far greater emphasis on pooling of resources, not only among cooperatives but with other utility systems, both public and private. We are going to have to look beyond local patterns to regional and even interregional power supply patterns.

The kind of large-scale interconnection and pooling being envisioned by the electric industry today would produce enormous benefits for rural electric cooperatives and their consumers. It would permit construction of larger and more economic generating units, and transmission of bulk power from generating sources to major load centers.

It would make possible savings in fuel transportation costs in mass shipments of energy, such as our borrowers will experience in the lignite fields of North Dakota.

It would allow the location of large steam plants in the less heavily populated areas to alleviate air pollution problems in the large urban centers, a benefit with important implications for your rural systems.

It would reduce the reserve requirements of individual systems and provide further savings by permitting seasonal exchange of capacity between areas with opposing summer and winter peaks. And, among a number of other benefits, it would allow more efficient use of hydroelectric plants for peaking purposes.

But while the benefits of low-cost power through interconnection and pooling and large-scale generation are clear to the industry observer, it is not so clear how, under the present terms of the Rural Electrification Act, the rural electric systems can share in these benefits. We know that a rural electric cooperative cannot hope to compete with a one-million-kw unit with its own 22,000-kw unit, but it is just as true that to justify construction of a one-million-kw plant with 2 percent REA financing and the restrictions it entails may be beyond the present capabilities of REA borrower systems.

Under present restrictions it took 76 cooperatives in 6 states, with the special good fortune to have available a 4,000-mile transmission system of the Federal Government, to put together sufficient load requirements to justify the 200-megawatt generating plant now under construction by Basin Electric Power Cooperative.

The 615-megawatt generating plant proposed by Buckeye Electric Cooperative in Ohio could not be financed by REA under present policy limitations, which require that capacity be absorbed by beneficiaries of the Rural Electrification Act within 10 years. The Buckeye plant would not be fully utilized for service to its own members for approximately 17 years, according to present load projections. Yet the economies of generating units of this size are great, and there is a ready market for the power until such time as it is needed for Buckeye's members.

The same kind of problem must be faced in EHV transmission and large interconnections and regional power pools. Under the present REA financing pattern, it is much more difficult for electric cooperatives to borrow REA funds to enter into such arrangements with other suppliers than it is to use REA funds for systems which borrowers operate entirely by themselves.

We have reached a point in the development of electric technology and of the rural electrification program when the restrictions which the Act places upon the basic 2 percent financing makes it difficult for rural systems to move apace with the industry. REA borrowers today require capital that is available under fewer restrictions to permit them greater flexibility in making power supply arrangements. This increased flexibility is absolutely essential to the future strength and development of REA-financed systems and to the achievement of parity of rates and services for rural people with city people.

So, as we look ahead today toward the needs of tomorrow, these are the problems we face.

The present basic REA financing at 2 percent interest has been and still is an essential equalizer to bring parity of electric service within the reach of most rural communities served by REA-financed systems.

This basic program must be preserved and continued to the full extent it is needed to accomplish area coverage, provide rural parity rates and service, and develop proper system reserves to assure sound business operation and offer the rural people served reasonable assurance of stable and reliable service for the future.

But this alone will not be enough. There will be need for capital above and beyond these basic requirements. And the question we face is how can it be secured in adequate amounts and under terms fitted to the needs of future operations.

Your Association a year ago undertook a study to determine if rural electric systems would be able to meet these needs for additional financing from the private money market. You are to be commended both for your foresight and for your insistence on getting the facts before making any judgment. This study is still in progress.

At the same time I told you that we in REA proposed to study the possibility of developing a new type of intermediate REA financing to supplement the present basic 2-percent financing. Such intermediate financing would, on the one hand, be freed from some of the restrictions placed upon the present basic REA financing and, on the other hand, return a rate of interest which would be fully compensatory to the Federal Government for the cost of its money.

Such intermediate financing would supplement, not replace, the basic 2-percent financing, where the basic financing is needed to accomplish the basic objectives of rural service.

As I pointed out a year ago, if this intermediate financing is made fully compensatory to the Federal Government by means of a higher interest rate, the Federal Government could in turn more easily make such loans available in the greater volume necessary to meet the needs of the future. It could afford also to make such financing available on a less restrictive basis.

While we all await the results of your study on the availability of private financing to meet your future needs before forming any final judgment, I am confident any realistic appraisal of the prospects at this point must be deeply concerned with at least two major obstacles to the attraction of private capital.

One is the substantially lower owner equity in most rural systems than is customary in the commercial electric utility industry.

The other is the lack of territorial protection for rural systems in most states.

- more -

Until these two deficiencies can be corrected, the prospects for any substantial financing from the private money market would appear very limited at best.

As a practical matter the intermediate financing such as we have been studying in REA may prove to be a very necessary bridge between the present basic REA financing and your ultimate access to the private money market on favorable terms.

It is with this in mind that I have suggested it would be advisable for you of NRECA as well as us in REA to study the possibility of supplemental public sources of financing for rural electrification. And we welcome the decision of your board of directors announced yesterday to expand your present study to cover this field of potential financing. Let us not forget it is you as well as we who face the necessity of decision on the future course of this program.

Together we must move to meet the needs of a growing America. To you falls the challenge of leadership in rural America. With you will rest a great responsibility for its ultimate place in the Great Society. The challenge is great, and the time for action not long. To be ready for tomorrow, we must begin today.

###

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator,
Rural Electrification Administration, before
the American Institute of Cooperation,
Columbia, Missouri, August 10, 1965

THE RURAL ELECTRIC AND TELEPHONE STORY

It is always a pleasure to talk about success. And it is always a challenging opportunity to appear in this distinguished forum of the American Institute of Cooperation. My pleasure is double on this occasion, therefore, because I bring to you today a progress report which is unique in the annals of cooperative achievements. It is the REA story, so successful in rural America that it is now a pattern for export to 21 nations abroad.

It is a record of 30 years of teamwork between the Federal Government and local, private enterprise cooperatives. This has been a partnership in which REA provided financing and technical assistance and in which co-op minded rural people furnished the initiative and shouldered the ownership responsibilities to go ahead with a job that nobody else wanted.

Back in 1935, only one farm in ten had central station electric service, and more than a few power company officials even then regarded rural electrification as virtually completed so far as they were concerned. Today, thanks to consumer-owned electric cooperatives and REA loans, 98 percent of this Nation's farms are electrified -- but we know for sure that rural electrification is not completed. It is a continuing task, a growing responsibility. Part of the success story of REA and the cooperatives lies in this very awareness of how big and how challenging the opportunity for rural electrification really is.

-more-

REA borrowers continue to add approximately 150,000 consumers on their lines each year. These rural consumers, which now number more than five and a third million, continue to double and redouble their consumption of electric energy. While the demand for power increases in rural areas, the need for additional capital to expand the rural systems also increases. REA borrowers are paying back the principal and paying interest on their loans on schedule and ahead of schedule, but this outstanding record is somewhat overshadowed by our present concern about sources of future financing on a far greater scale.

In REA's rural electrification program, loans have been made to 996 cooperatives and to 108 other borrowers, including 24 electric power companies. Thirty-two of the cooperatives were freezer and refrigeration enterprises, all listed now as paid-up borrowers. Seven of the loans were transferred to local electric cooperatives which were supplying the power for the freezer plants. Seventeen cooperatives had their REA loans repaid as a result of consolidations or sale to some other power supplier. Nine rural electric cooperatives have repaid their obligations in full out of revenues. Others are close to paying off all outstanding loans.

The progress toward debt retirement and financial stability can be seen most easily in the rise of net worth. Total net worth of the rural electric cooperatives passed the one-billion-dollar mark this last year. As of December 31, 1964, the net worth figure reached $1,001,087,432, or an average of 24.5 percent of total assets. A year earlier, net worth amounted to $919,108,401, or 23.5 percent of total assets. The average growth rate presently is running close to $80 million or about 1 percentage point per annum.

This steady increase in net worth is the more remarkable when we realize that it is being achieved in the context of substantial rate reductions and repayment of capital credits to members. Capital credits is a term we use in the REA program to describe what you more readily recognize as deferred patronage refunds.

In the early days of the program, when the first lines were being built, most REA borrowers operated in the red. Today, most of the cooperatives don't have to use red ink to report their margins. In recent years, more and more co-ops have begun to repay the earliest of their capital credits, as boards of directors determined that the financial position of the co-op warranted such action.

Because the cooperatives are service organizations and not profit-motivated, they also have been making rate reductions, passing on to the consumer the benefits from new technology, management improvements, and lowered wholesale power costs.

Only 14 electric borrowers were able to make rate reductions to their consumers in fiscal year 1961. In the following year 31 reduced their rates. The number climbed to 77 in 1963 and to 111 in 1964. In the 1965 fiscal year, which ended this last June 30, a record 126 made reductions for a record savings of more than $5,134,000 a year on consumers' electric bills. This is not only a measure of the increasing success of the rural electric cooperatives, but a magnificent contribution to the Nation's economy.

Additional borrowers have consulted REA rate specialists in anticipation of still more savings for farm families and other rural consumers. This is in line with the real objective of the rural electrification program, which is to make electric power available to rural people under rates and conditions comparable to those available to people living in towns and cities.

We are closing the gap, but consumers on REA-financed lines still pay on the average 19 percent more for the first 500 kilowatt-hours of power they use each month than consumers in adjacent urban communities have to pay. This is because rural electric cooperatives are called upon to serve the most thinly populated parts of the country. The result is low revenue per mile of line they have to build, a lack of diversity and large power loads, pockets of chronic poverty and the isolation of some of the systems.

Even today, after many years of progress, there are, on the average, only 3.3 consumers per mile of line on REA-financed systems, compared with an average of 33.2 consumers per mile on the lines of Class A and B commercial utilities. The contrast in annual revenues per mile is even sharper: an average of $460 per mile on the rural systems versus $7,164 per mile for the commercial power companies.

To offset these built-in handicaps, the member-owners of the cooperatives do a great deal to hold down the expenses. They donate rights-of-way, they contribute interest-free capital through the capital credits system, directors serve with no pay or a minimum amount to cover their expenses. In some co-ops, the members read their own meters and compute their own electric bills. Above all, they operate as cooperatives -- which take no profit.

Other equalizers to help rural electrification leaders overcome the obstacles to full rural service were provided by Congress through the Rural Electrification Act -- long-term, low-cost financing, and technical assistance in engineering, accounting, and management improvement.

In spite of the difficulties, REA borrowers have made an almost unbelievable repayment record. In the electrification program, total loans since the beginning amount to $5.6 billion. Of this amount, funds actually advanced to borrowers for construction and other purposes total $4.8 billion. Repayment of principal, by the end of the 1965 fiscal year, reached a total of nearly $1.3 billion. In addition, repayments in advance of due date were $268 million. Interest payments totaled $726 million.

Only once, has REA had to foreclose on an electric co-op. It was a small one and it was a long time ago. The net loss was $7,200. Currently, of 935 cooperatives listed by REA as active borrowers, only one poses a long-term delinquency problem, and we are working with this borrower to correct this situation.

Last year, REA made electric loans amounting to $380 million. In the years ahead, we know the capital requirements of the REA-financed electric system will increase enormously. We estimate that REA borrower systems may need about $8 billion in new capital between now and the end of 1980, and that the requirements during the year 1980 may exceed the figure of $600 million.

We know that additional future capital will be needed to cover the higher costs of plant replacements. And beyond this, there will be the capital needed for new and expanded generation and transmission systems.

Both REA and the National Rural Electric Cooperative Association have been conducting studies in regard to meeting the future financial needs of the rural electric systems. The NRECA Board of Directors meeting in Washington July 17 adopted a resolution in which it recommended development and support of these basic concepts:

(1) That the present REA 2 percent interest program be kept unchanged for those systems needing it;

(2) That an intermediate financing plan be set up to provide more flexibility in loans; and

(3) That a mechanism be established to provide a way to bring supplemental private money into the program at terms that will enable the systems to grow and carry out their program objectives.

I commend the cooperatives and their national association for facing this problem squarely and opening the way for the development of constructive solutions which may well require amendment of the Rural Electrification Act at the next session of Congress.

The rural telephone program is about half as old as rural electrification, dating from 1949 when Congress amended the Rural Electrification Act to permit REA loans to telephone companies and cooperatives -- on the same terms that proved successful in bringing electric power to rural America.

As a result, more telephones have been installed in rural America during the last 15 years than were installed in any other decade and a half of the industry's history. Close to 80 percent of this Nation's farms now have telephone service, in contrast to 38 percent in 1950 when REA made its first telephone loan.

-more-

Today there are 213 active telephone cooperative borrowers in the REA program, serving some 460,000 subscribers. They range in size from cooperatives serving as few as 200 subscribers to large ones serving as many as 16,000 subscribers. Four new cooperatives were added in the last fiscal year. At the end of calendar 1964, the assets of cooperative telephone borrowers totaled $313 million, which is an increase of $85 million since the beginning of 1961, the year I assumed the responsibilities of REA Administrator.

And the net worth of telephone cooperatives has grown from $5,873,274, or 2.6 percent of assets at the end of 1960, to $16,925,685, or 5.4 percent of assets, at the end of 1964.

Cooperative revenues have risen from $26.5 million in 1960 to $43.5 million in 1964.

The telephone cooperatives have paid to REA $45.6 million in principal and $32.5 million in interest. And of principal repaid, $5.3 million has been paid ahead of schedule. Only one telephone cooperative is in arrears on its debt servicing, for a total amount of $100,000.

It is to the special credit of the telephone cooperatives and their sense of public stewardship in the use of REA loan funds that although the cooperatives have received only 35 percent of the telephone loan funds advanced, 52 percent of advance payments on principal has come from the cooperatives.

And they have done this in the face of the toughest handicaps in serving rural areas. Telephone cooperatives financed by REA served an average of 2.8 subscribers per mile of line in calendar year 1963. This was about half the average density of 5.5 subscribers per mile for REA's commercial telephone borrowers. Compared with these densities, the average of 15.9 subscribers per mile for the independent industry generally looks like a different world.

The handicaps of the co-ops and the areas where they serve also are evident when we look at revenues. For calendar year 1963, telephone cooperatives showed operating revenues averaging $260 per mile of line. REA commercial company borrowers averaged $571 per mile. All systems reporting to the United States Independent Telephone Association averaged $2,294.

This means that cooperatives have fewer subscribers and less revenues to pay the cost of building and operating and maintaining each mile of plant. Yet pay for it they must if farm families and other rural people in thinly populated areas are to get the telephone service they need so much.

In our latest studies to determine realistically the future needs of our telephone borrowers in the light of current trends of the industry, we estimate REA will be called upon to meet steadily mounting requirements for new capital, reaching a level of over $225 million in 1975.

Meeting these increased capital requirements in both the telephone and the electric program present major problems, but it is important that in doing so that we do not lose sight of the purposes and objectives of the two great programs.

President Johnson recently said with reference to the basic and historic purpose of the REA electrification program that-- and I quote -- "The objective of the REA program throughout its existence has been to achieve parity of electric service and costs between city and country."

The same can be said with equal application to the REA rural telephone program. And it can also be said that true parity of telephone service will not be provided rural Americans until single-party service is as readily available in the rural areas as it is in the cities.

-more-

Through the rural electrification and telephone programs of REA, rural America today possesses a utility plant representing a total investment of more than $5.7 billion. More than that, it has access to the vital utility services of electricity and communications which mean so much, not only to the elevation of rural living standards, but also the parity of opportunity we seek for rural people. This is the success story of REA.

#####

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Washington, D. C. 20250

Postage and Fees Paid
U. S. Department of Agriculture

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator,
Rural Electrification Administration, at the
regional meeting of the National Telephone Cooperative
Association, August 13, 1965, Denver, Colorado

Financing to Stay in Business

To the uninitiated and uninformed it may seem strange that at a time of their greatest progress, responsible management leaders of rural telephone cooperatives should meet -- as you are meeting here today -- to consider in all seriousness the problems of "staying in business." There is an implication of crisis in the theme of your regional meetings this year which the casual observer may find hard to square with the obvious accomplishments of the industry -- in general -- in expanding rural telephone service and the growing strength of rural telephone cooperatives -- in particular.

Let me say at the outset that I am confident rural telephone cooperatives are here to stay -- you are going to stay in business -- if we all measure up to our respective responsibilities. At the same time let me also say that we do face a very real crisis affecting the future quality, cost, and availability of telephone service in rural America.

It is not a crisis that arises from any lack of progress in rural telephony. Rather it is a crisis which stems from growth itself, a crisis of meeting an accelerated demand for better service and matching in rural America the accelerated pace of industry advances elsewhere.

The REA rural telephone program faces this crisis with you. REA financing and technical assistance has been the key which in the past has unlocked the door to modern telephone service for rural people. It is still a necessary key to the future availability and the future quality and cost of rural service because of the heavy handicaps which must still be overcome in rural areas.

- more -

The revival of the independent telephone industry in rural America and the unprecedented expansion and improvement of rural service has been in large measure the product of REA assistance. And the progress made has been impressive.

More telephones have been installed in rural America during the last 15 years than were installed in any other decade and a half of the industry's history.

In calendar year 1964 alone, REA's 848 borrowers added 65,000 new subscribers, bringing to 685,000 the total of farm families and other rural subscribers getting telephone service for the first time as a result of REA financing. The 225 REA-financed cooperatives accounted for 16,000 of these new subscribers in 1964, making a total of 226,000 subscribers getting initial service through cooperatives since the beginning of the REA telephone program.

We have been talking a lot about upgrading, and doing something about it, too. About half of the loan funds which went to telephone cooperatives in fiscal 1965 went for such system improvements as additional toll and EAS facilities, new headquarters facilities, and equipment to provide more reliable service, as well as upgraded service to prior loan subscribers. Loans were made last year to cooperative borrowers to provide upgraded service for 43,000 of their subscribers.

In all, there are about 1.6 million subscribers now enjoying the direct benefits of modern dial service as a result of REA loans made over the years since passage of the telephone amendment to the Rural Electrification Act. REA's commercial and cooperative borrowers have placed in service 374,547 route miles of line and have cutover 3,697 exchanges.

And as we approach the end of the sixteenth year of the REA rural telephone program, telephone service in rural areas has never been more readily available or of such high quality as it is today. Prospects for growth and for steadily improving service in rural America have never been brighter.

As we look at what has been achieved in the space of just a few years, you of the telephone cooperatives can take special pride in what has been done, because as a group you have undertaken what is undoubtedly the hardest telephone service job in America.

Telephone cooperatives financed by REA in calendar year 1963 served an average of 2.8 subscribers per mile of line. This is about half the average density of 5.5 subscribers per mile for REA's commercial telephone borrowers. Compared with these densities, the average of 15.9 subscribers per mile for the independent industry generally looks like a different world. And to go beyond that -- while a comparable figure for Bell System companies is not so readily computed, it is estimated to be in excess of 40 subscribers per mile of line.

The handicaps of the co-ops and the areas where they serve are shown too when we look at revenues. For calendar year 1963, telephone cooperatives showed operating revenues averaging $260 per mile of line. REA commercial company borrowers averaged $571 per mile. All systems reporting to USITA averaged $2,294.

This means that cooperatives have fewer subscribers and less revenues to pay the cost of building and operating and maintaining each mile of plant. Yet pay for it they must if farm families and other rural people in thinly populated areas are to get the telephone service they need so much.

And these are not the only handicaps faced by cooperatives. Frequently they must contend with exceptionally difficult terrain. All too often, they serve areas of low rural income, sections beset by conditions of chronic poverty. It is clear that if cooperatives did not serve these areas, most of them would not be served at all.

Yet despite these handicaps you have made a phenomenal record of success and progress. Today there are 225 telephone cooperatives in the REA program serving some 460,000 subscribers. Four new cooperatives were added in the last fiscal year. At the end of calendar year 1964, the assets of cooperative telephone borrowers totaled $313 million, which is an increase of $85 million since the beginning of 1961, the year I assumed the responsibilities of REA Administrator.

And the net worth of telephone cooperatives has grown from $5,873,274, or 2.6 percent of assets, at the end of 1960, to $16,925,685, or 5.4 percent of assets, at the end of 1964.

Cooperative revenues have risen from $26.5 million at the close of 1960 to $43.5 million at the end of 1964.

The repayment record of the REA telephone borrowers has fully justified the confidence placed in them. From a total number of 848 borrowers, only 3 are delinquent, including one cooperative, for a total of $107,182. At the start of 1961, there were 11 delinquent borrowers, including 8 cooperatives, for a total of $228,295.

Looking at the positive side of the repayment record, we find the telephone cooperatives have paid to REA $45.6 million in principal and $32.5 million in interest. And of principal repaid, $5.3 million has been paid ahead of schedule by 114 of the cooperative borrowers.

It is to the special credit of the cooperatives and your sense of public stewardship in the use of REA loan funds that although cooperatives have received only 35 percent of the telephone loan funds advanced, 52 percent of advance payments on principal has come from the cooperatives.

So you can see, I am sure, why we in REA have not only a special appreciation for the unique role you play in bringing the basic equalizer of nonprofit operation to bear on the areas where the handicaps are greatest, but also a special concern in your continued growth and success.

For in spite of all this progress and growing strength, experience, and developing "know-how" in rural telephony, the task we face has been growing, too. When we add to the old dimensions of the so-called unfinished job of rural telephony -- that is, the number of farm and rural homes and isolated areas still not reached by telephone facilities -- the new dimensions of population and economic growth in rural America, and multiply it all by an accelerated consumer demand for higher grade service in the whole country, we have the ingredients of a major crisis calling for some far-reaching reassessments and readjustments in our REA telephone program.

About 20 percent of this Nation's farms still are beyond reach of existing telephone lines. The nonfarm rural homes still unserved may well amount to a similar 20 percent.

When we look at individual states, it is obvious that the 20 percent average deficiency understates the real need. In New Mexico, for example, the percentage of unserved farms is more than double the national average, or around 48 percent. Nearly as large a proportion can be found in Arkansas, with 42 percent unserved. The national average is weighted by such states as Kansas, with only seven percent of its farms unserved, and Utah and Idaho, with only nine percent unserved.

Rural America needs today approximately 3½ million telephones just to put a single phone in each farmhouse and rural home. And this does not include the additional facilities that will be required by commercial, industrial, recreational, and community establishments in rural areas.

A portent of what is developing can be seen in the increasing flow of loan applications. Two years ago, as of June 30, 1963, the applications on hand amounted to a total of $58.3 million. A year later, the backlog had climbed to $84.7 million. Last June 30, applications on hand amounted to $122.2 million. We had 30 more applications on hand than we did a year ago.

The cooperatives and independent companies which already have turned to REA are in a great many cases methodically extending their area coverage, section by section, with supplemental loans from REA. But many of the applications represent a recognition by additional telephone companies that they can offset the built-in handicaps of rural service by utilizing the equalizers provided in REA financing.

In these actions, together with what nonborrowers find themselves willing and able to do, lies the hope of whittling down that 20 percent of unserved rural farms and other rural establishments. Our estimates indicate that REA borrowers alone will add a million more subscribers in the next 11 years.

An increasing amount of the new financing, however, is being requested for upgrading service. It is here that we begin to foresee the full dimensions of the task before us.

This is a reflection of both consumer reaction to the needs of modern living and the standard of service the industry is successfully providing in nonrural areas.

- more -

Already, we have found that the average rural subscriber makes three times as many calls over the telephone as he did when he first obtained dial service. Today's telephone is more than a device for social contact and emergency communication. The farmer's telephone, like the electric motor, has become an essential tool in agricultural production. With the accelerated development of recreational, commercial, and industrial enterprise in rural areas, telephone service has taken on a new importance. The demand has turned to graded service. Telephone companies and cooperatives are going to have to keep moving to stay ahead of this demand as we move toward a clearly indicated goal of single-party service available to all.

If this looks like a pretty big order, compare it with the Bell System goal for urban service. By 1970, Bell's expectation is to have 82 percent of its subscribers on single-party service, with 15 percent on 2-party service. This will leave only 3 percent on 4-party or multiparty service.

President Johnson recently said with reference to the basic and historic purposes of the REA electrification program that -- and I quote -- "the objective of the REA program throughout its existence has been to achieve parity of electric service and costs between city and country."

The same can be said with equal application to the REA rural telephone program. And it can also be said that true parity of telephone service will not be provided rural Americans until single-party service is as readily available in the rural areas as it is in the cities.

We have already moved past the old target of 8-party service in the country. Ten years from now we expect that multiparty subscribers on the lines of REA borrowers will account for only 4 percent of the total. At the end of this last year about 47 percent were still using multiparty service. We expect that

4-party and 5-party service, which accounted for 20 percent of REA-financed service at the end of 1964, will go up to 24.5 percent by 1975. The 10 percent figure for 2-party service should move up to 19.5 percent, and single-party service should shift from 23 percent to 52 percent.

REA is assisting its borrowers, as you are aware, in coping with the complicated details of upgrading their service. By now, I am sure we all have some familiarity with "Guidelines for Telephone System Development," which REA revised and reissued last winter.

Our engineers and our field representatives are prepared now to discuss with you the methods for determining the approximate cost of providing graded service before adoption of any rigid design, techniques for forecasting service requirements, approaches to mileage and zoning, and ways to promote and market the improved service.

Upgrading and single-party service would not be feasible today for rural areas without some of the new technological developments which REA encouraged. Buried plant was one of these concepts for rural telephone service which has become a spectacular success. About 70 percent of the route mileage built last year by REA borrowers was in buried plant. Not only is this less expensive than conventional plant, but it offers better service and in the long run it can reduce losses.

One of the other engineering advances which will affect telephone plant design, area coverage, and upgrading is the major influence of electronics. Such items as cable carrier, voice frequency repeaters, mobile radio, and microwave are all useful devices in building the most economical system. It is our hope that by next year single-party carrier equipment which is now being tested will be available to play an important role in existing and proposed telephone system designs of REA borrowers.

We are giving high priority to specifications for a new telephone set especially suited for rural systems where there are long subscriber loops in fully insulated aerial and buried plant and where maintenance expense must be kept to a minimum. REA engineers are at work on simplified design recommendations for trunk and subscriber loop plant that should result in good transmission even though design calculations will be largely eliminated.

Together we are giving greater attention to management improvement and greater member service to develop maximum feasibility and efficiency in the use of capital investment.

The 5-Star REA Member Service Program, which can be of as great value to telephone cooperatives as it has already proved to be for rural electric cooperatives, is this year being made available to you. It is a means of taking stock of your own operations, a studied approach for your own self-appraisal, which if rightly used can point the way toward constructive improvement in service, greater membership support, and more efficient and effective management.

Let me recommend it to you. It is a tried and proven program, but like so many things of worth, its effectiveness requires more than a prescription from REA. To be useful it must have your active and understanding cooperation. So I hope you will welcome our field representatives when they come to present the program to your cooperative.

Research, engineering, and management improvement can all render valuable assistance in enabling us to meet the accelerated challenge we face in rural telephony, but inevitably we come back to the inescapable fact that despite all this there is still going to be an accelerated need for capital financing.

The rural telephone program we have in the past looked upon as a program which could and would be developed by adding new loan capital at a relatively even pace of $100 million a year has clearly outgrown the timing of this approach as well as the early estimates of the overall requirements of the program.

Telephone loans in the last fiscal year totaled just under $97 million, but the carryover of loan applications rose to the all-time high total of $122.2 million.

The budget request of $97 million for telephone loans in the current fiscal year was admittedly a conservative one sustained in both the House and the Senate. I believe we can adequately meet loan needs through next June 30 with this budget authorization. I told the Appropriations Committee I believe we can. But I also pointed out to the Committee that the needs of this program are increasing and that 1967 will require some fundamental reappraisal of REA budget needs for rural telephone purposes.

In our latest studies to determine realistically the future needs of our telephone borrowers, in the light of current trends of the industry, we estimate REA will be called upon to meet steadily mounting requirements for new capital, reaching a level of over $225 million in 1975. This is more than double our present loan authorization level.

Meeting these increased capital requirements in the face of obvious and proper public concern over the size of the Federal budget and the public cost of the present interest rate presents a problem in the telephone program just as it does in the rural electrification loan program.

It is important that we not lose sight of the purposes and objectives of the REA rural telephone program. It is important that the equalizing benefits of 2 percent basic REA financing continue to be available to the full extent necessary to make possible a parity of telephone service for rural people. However, in fairness to the taxpaying public it is also important that this advantage, with whatever public cost it entails, not be used where it is not needed to accomplish the purposes of the REA rural telephone program.

REA-financed electric cooperatives, faced with the same problem, are actively exploring the possibility of amending the Rural Electrification Act next year to provide a flexible financing "package" built around three concepts: (1) the continuation of present 2 percent basic financing where needed to accomplish program objectives; (2) a new REA intermediate direct loan program which would offer greater flexibility of use to improve loan feasibility in return for a rate of interest which would compensate the Federal Government for its interest costs; and (3) a mechanism which could bring supplemental private money into the program "at terms that will enable the systems to grow and carry out their program objectives."

In so doing they are showing a deep awareness of an acute problem and moving to meet it with courage and statesmanship.

Although the urgency of the problem may not be as acute in the telephone program at this particular time, it will come and it will come more rapidly than may be expected by many at this time. Although the REA telephone program has not matured to the same extent as the electric program -- it is only 16 as compared to the electric program's age of 30 years -- telephone systems do have certain advantages, such as greater territorial protection, which will tend to

develop their financial potential more surely than has been possible in the electric program to date. So although the present need for the advantage of 2 percent financing in the rural telephone program has been accepted by the Congress -- and the public -- with relatively little challenge, the challenge may come in greater intensity sooner than you think.

In view of these considerations, I would like to suggest to you that your National Telephone Cooperative Association work with us in REA, through an appropriate study committee, to review possible ways of combining the approach to our telephone financing problems with the developing approach to our electrification financing problems.

If an effort is to be made to amend the Rural Electrification Act next year, there would be obvious advantage in tackling both electric and telephone problems and doing the complete job at one time -- in a single, combined legislative effort.

As we move on to achieve the American dream of the Great Society, as we strive to make rural America a bright and shining part of that great purpose, there is no graver problem to be solved than the need for adequate capitalization of our rural communities. The proper financing of vital rural utility services is a part of this critical need. In this we have a heavy responsibility -- you in the rural telephone cooperatives, we in your Federal Government.

Together we have solved tough problems in the past. I am sure we will all have to help solve this one -- for if it is to be solved, we will have to solve it together.

###

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator,
Rural Electrification Administration, before 12th
Annual Meeting of the National Telephone Cooperative
Association, February 11, 1966, Denver, Colorado

A Year Of Decision

It is good to be with you again.

Your hospitality always makes me feel quite at home at your annual meeting -- whether it be in New Orleans, Las Vegas, or Washington -- Dallas or Denver. It is good to see old friends -- and there are a few more each year, but each time you meet, there are also some new managers and directors. These are all signs of a growing organization.

This is good too, because the telephone cooperatives are carrying a great responsibility. They are supplying service to half a million farm families and other rural subscribers today, and there is an even bigger job ahead -- a job that demands strong, growing cooperatives and a strong, growing association.

This 12th annual meeting of the National Telephone Cooperative Association comes at the close of another year of progress which has marked a new level of achievement by the telephone cooperatives and your association. It also ushers in a year of critical decision for telephone cooperatives and your association, as well as for all REA borrowers.

There must be some decision today if we are to be prepared for the needs of tomorrow.

The imposing National Archives Building in Washington carries an inscription taken from the pen of William Shakespeare. It says, "What is past is prologue." This is true in the rural telephone program too. "What is past" is indeed a promising prologue for what is to come.

Your cooperatives, because they are nonprofit organizations, have been able to provide telephone service in many of our more remote, and thinly populated rural areas, which offer little attraction to others in the telephone business. Density along the lines of REA's cooperative borrowers is holding at about 2.4 subscribers per mile. This is about half the average density on the lines of REA's commercial-type borrowers. Telephone cooperatives are doing an amazing job in rural America that would not be done by any other form of business organization.

As a consequence of their low subscriber density, co-ops have a higher investment in plant per subscriber. This figure stood at an average of about $765 in 1965, substantially above the approximate $667 average for all REA telephone borrowers. The investment figure edges up still higher as cooperatives extend service into thinner territory and improve the quality of that service. This is one of the built-in handicaps of the task you have undertaken.

We expect the demand for upgrading service will see single-party service by REA borrowers more than doubled in 10 years, moving up from 23 percent of all subscribers on borrowers' lines last year to 52 percent in 1975. This is the year in which the Bell System companies plan to have 87 percent of their subscribers on 1-party service. Before 1965 drew to a close, 31 REA borrowers had obtained REA loans to convert a total of 57 exchanges to all-single-party service. Applications for more such loans are on hand from all five REA areas.

This, I am sure, is just a beginning.

All these pressures are bound to require accelerated investment and new financial resources. We fully expect that by 1975 the need for capital for all telephone borrowers may well reach a level of $225 million annually. Although no one can predict with any certainty what future Administrations and future Congresses will do, the ever mounting demands upon the Federal Budget are in all probability going to increase rather than diminish the pressures to place as much of this type of financing outside the Federal Budget as is possible without jeopardizing the basic objectives of the rural telephone program.

The rural electric cooperatives are facing a similar problem. From your meeting here I go tomorrow to the annual meeting of the National Rural Electric Cooperative Association where representatives of their 979 member systems will be giving final consideration to a plan for supplemental financing which has grown out of two years of serious and soul-searching study.

At the direction of their member systems, two years ago NRECA contracted with the investment firm of Kuhn, Loeb & Company to conduct a study for them on the prospects of obtaining money in the open market for financing to supplement the basic 2 percent REA financing available.

Following publication of the Kuhn-Loeb findings last summer, the NRECA Board of Directors recommended development and support of these basic concepts for future financing of the rural electric program:

1. That the present REA 2 percent interest program be kept unchanged for those systems needing it;

2. That an intermediate financing plan be set up to provide more flexibility in loans; and

3. That a mechanism be established to provide a way to bring supplemental private money into the program at terms that will enable the systems to grow and carry out their program objectives.

A resolution embodying these concepts was approved last fall at nine out of ten NRECA regional meetings.

After still more study and discussions among their members, NRECA offered a further refined supplemental financing plan to its membership for final consideration at its annual meeting next week.

This plan proposes the creation of a Federal Bank for Rural Electric Systems in the Department of Agriculture to supplement -- not replace -- the present basic REA 2 percent financing. With capital drawn from both the Federal Government and its own borrowers, with an authority to borrow money in the private market and with the Federal Government providing reserve security in the early years, it would make two kinds of loans: intermediate rate loans and developmental loans.

The interest rate charged for the intermediate rate loans would represent a cost arrived at by mixing the available nondividend bearing and nominal dividend bearing capital available to the bank with money borrowed from private investors at the market rate of interest. This mixing of dividend free or low dividend capital funds with market rate borrowed funds would produce a net money cost on this type of loan above the 2 percent rate on REA basic financing but below the full rate of interest charged in the private money market.

The higher rate loans would be available to those borrowers whcse financial development would be sufficiently advanced to find such loans usable and consistent with the achievement of program objectives. Each borrower would be eligible for the rate which fits its need best in the achievement of program objectives.

A further feature of the Bank in the proposal now under consideration by the rural electric cooperatives is that it would eventually be owned and controlled by the borrowers themselves as a cooperative bank.

There will no doubt be room for disagreement on the details. But the advantages of this approach are principally these:

1. It does not destroy the present basic 2 percent REA financing for those rural systems needing it to accomplish the objective of parity costs and service for rural people.

2. It does open up a greatly increased loan potential from sources outside the Federal Budget to meet the expanding needs of rural systems in the future without having to depend on the annual appropriation process.

3. In the electric program it offers in return for higher interest rates a very important greater flexibility of loan use. It is possible this might well be attractive too in the telephone program in meeting the need felt by the industry for offering a varied and complete communications service.

4. By supplementing available 2 percent basic financing with intermediate loans and developmental loans close to or at the full market rate of money, it creates a credit ladder by which rural systems can move along to less restricted financing as their capabilities warrant and preserve the availability of the more limited lower cost credit for the systems that really need it.

As we in REA have explored these possibilities with our electrification borrowers, we have not forgotten the telephone program. We have kept you and your association informed of our studies. We have tried too to keep you informed on the prospects for action. Our staff and your staff have reviewed the needs of the telephone program in the light of possible legislative authorization for supplemental rural electrification financing.

Although much depends upon the action of the National Rural Electric Cooperative Association's annual meeting next week, present indications are that an effort will be made to secure legislation at this session of Congress authorizing the establishment of a Federal Bank for Rural Electric Systems to supplement present REA financing.

If this is the year of decision for the rural electric systems in meeting their needs of the future, this may well be the year of decision for rural telephone systems too. If it is your judgment that supplemental financing for the rural telephone program is going to be necessary or desirable in the foreseeable future, then there are obvious advantages in moving at the same time Congress is considering the needs of the electric borrowers.

If you see the desirability of tapping additional sources of loan funds outside the Federal Budget while preserving the basic 2 percent program for the systems needing it, if you believe there is now a need or soon will be for a Federal Bank for Rural Telephone Systems, this is your year of decision.

Let me close by telling you what President Johnson, who feels very deeply the needs of rural America, told the NRECA Board of Directors last July when he spoke to them in the Rose Garden of the White House.

"If you do not look far into the future and provide the necessary leadership," the President said, "there is not going to be much rural America...You must take the lead in planning today for what is going to happen 35 years from now. You must take the lead in planning for a fuller utilization of rural America -- providing the power and the service to meet your share of the future's demands."

I am sure he would tell you the same thing if he were here at your annual meeting today, for this is the challenge facing all rural leadership in modern America.

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION
WASHINGTON, D. C. 20250

OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator,
Rural Electrification Administration, before
the 1967 Regional Meetings of the National
Rural Electric Cooperative Association

RURAL ELECTRIFICATION -- ITS EMERGING ROLE IN THE RURAL-URBAN GROWTH BALANCE

The time has come again for me to report to you on the state of the Nation's rural electrification program in which we share important public responsibilities.

To illustrate the national importance as well as the far-reaching implications of these responsibilities let me tell you a story. It is a true story. It demonstrates the connection between rural electrification and the kind of rural economic development which not only provides greater opportunity in Rural America but offers sound and fundamental relief for the Nation's growing urban problems.

In 1957, a man came home to a rural area near Columbia, South Carolina. He had an idea and about $7,000 of capital. He was a man of considerable business experience, but his career had been interrupted twice to serve his country -- in World War II and again in Korea.

This time when he came home, he decided to establish a manufacturing business -- to manufacture steel building joists -- right out in the country where more and more of the local people were being forced to look for new livelihoods because of the changes taking place in modern mechanized agriculture.

To make these metal joists he proposed to use electric welders, and that required electricity. His selected location did not have electric service at the time. The neighboring power company refused to supply service unless he contributed $3,500 -- almost half of his entire capital -- to finance a line

- more -

to his proposed site. This he could not afford, and if this had been the final word, that business venture would not have been undertaken where it was, out there in the open countryside.

But fortunately that was not the last word. There was also in that general area a cooperative rural electric system, the Tri-County Electric Cooperative, financed by REA for the specific purpose of bringing electric service to rural areas. He visited the cooperative on a Thursday. By the next Monday the cooperative had built more than 3,000 feet of new line, installed a transformer and set a meter, all at no capital cost to this new rural consumer.

This venture, which was started in an open field with 10 employees and has since expanded to the point where it now employs 400 people and provides an annual payroll of $1\frac{1}{2}$ million, has given new economic life to a rural community where the pinch of farm unemployment had been forcing its people to turn to the overcrowded cities in search for employment opportunities.

So today, Congaree, South Carolina, shows the marks of growth -- instead of the marks of economic erosion -- with 2 new schools and 27 classroom additions to existing schools; 75 new homes bought or built by company employees; 3 new filling stations; a bakery; a small shopping center; 2 laundries; 2 new churches, and several small country stores. Perhaps best of all, some of the young people who had left to find opportunity elsewhere are now returning to fill jobs which have become available in their home community.

And in the light of the festering social problems, the racial tensions, and the explosive congestion in the ghettoes of so many of our cities, aggravated by a mounting migration of displaced rural poor, let me point out that the Congaree Iron and Steel Company's plant is in a rural area where 85 percent of the population is Negro, and 85 percent of the plant's employees are Negro.

The war against poverty and all its social ills must be waged wherever the poor and the underprivileged are found, but the best place is at the source -- where they come from. And in the past two decades millions of such people have been cut loose from the land by the mechanization of agriculture. It would be far more effective to provide other opportunities for their employment in their home rural communities rather than force them to migrate to the cities where they only aggravate further the problems of urban congestion.

The war on poverty must be waged with many weapons -- physical rehabilitation, better nutrition, sanitation, education and vocational training. The ultimate weapon, however, must be employment -- productive, respectable, adequately paid employment.

At the time the Congaree plant was started, the annual wage received by heads of Negro families in that community was about $600. That average wage today is slightly over $3,400 a year. Many of the Negro employees earn as much as $9,000 a year.

The moral of the Congaree story is that it would not have happened if electricity had not been available at this rural location from an alert and responsible REA-financed rural electric cooperative which takes its community responsibilities seriously.

Congaree is not the only story I might cite here. There are many of them, not as dramatic as Congaree in all its aspects, but demonstrating nevertheless the key role of electric service in making economic development and expanding employment possible in Rural America.

I could tell you of the Green River Rural Electric Cooperative Corporation in Kentucky which, at the request of the Governor of the State, stepped into the negotiations with a prospective new industry. After a neighboring power

company had failed, this rural electric cooperative brought first an aluminum rolling mill and now an aluminum reduction plant to its rural area. In this case not only was the availability of electric power crucial but equally important was its availability at competitive rates.

I could cite the story of Bedford Rural Electric Cooperative at Bedford, Pennsylvania, which made electricity available for a major ski resort in its service area and thereby gave the area, which had long suffered the ups and downs of strictly summer recreation, the stability of year-round business.

The availability of electricity has opened the way for a tremendous expansion of commercial outdoor recreation in rural areas. Recreation has proved to be one of the fastest growing industries in America today. It is now estimated to have a gross revenue volume of $25 billion annually. It is particularly suited to rural areas because that is where the space, fresh air, natural beauty, and the peace and quiet can be found which the harried city dweller seeks today. It provides employment and income for the development of rural areas and at the same time meets a vital need of our city people for rest and relaxation, but it takes electricity.

It takes electricity to light and power the cottages, the lodges, the motels and the restaurants which cater to the needs of most present-day vacationists and tourists.

I could tell you many stories of the key role of the leadership and initiative of rural electric cooperative management in stimulating the economic development of their respective rural communities. Since the Department of Agriculture's rural areas development program began in mid-1961, at least 182,000 jobs for rural people have been created through 2,000 projects established with the help of REA electric and telephone borrowers.

All this reveals the ever-widening effects of rural electrification on the Nation's welfare. This great technological and social breakthrough of the 1930's caught the public's attention first primarily as the bringer of light to those vast darkened areas of America. Later came a growing understanding of what it meant in terms of more efficient and productive farming.

Now rural electrification's broad potential for the diversified economic development of Rural America is emerging. With it comes a necessary recognition of its vital role in developing the rural-urban growth balance which the future welfare of our Nation will require.

This is one of the public responsibilities we share together -- you as the active directors and management of going rural electric enterprises and we of the Federal Government in REA. If we are to measure up to this responsibility, the rural electrification program must measure up to its objectives.

First, electric service must be generally available throughout Rural America on an area coverage basis.

Second, it must be available in quality and at a cost comparable to what is available in urban areas.

Third, it must be available through sound, reliable, permanent systems and organizations to which people and business alike can look for continued service on into the future with complete confidence.

These have been the objectives to which REA has given renewed emphasis these past six years it has been my privilege to serve as Administrator. I point with some pride, justifiable pride I hope, to the progress we have made toward the achievement of these objectives, but also with deep appreciation to you for your cooperation where our leadership has been required and for your leadership where our support has been more in order. This has been a joint

venture. It must be a joint venture if it is to succeed fully, an enlightened partnership of local enterprise and local people with their Federal Government.

And let me congratulate through you your National Association for its vision in pointing out the vast and fundamental role of rural electrification in our Nation's progress. Let me express my deep and everlasting admiration of Clyde Ellis and his embattled leadership throughout all these years of struggle for the cause of rural electrification. I remember well Clyde Ellis' call to you to take the next "giant step" of rural area development at the 1961 annual meeting of NRECA in Dallas. It was a stirring challenge as Clyde Ellis' challenges always are. It was a vision now proving itself.

In the six years which have followed we have made monumental progress together in all the many diverse but necessarily related aspects of rural electrification -- extension and strengthening of distribution systems, improvement of power supply, strengthening of the economic base for rural systems, greater protection for their service areas, better management, lower costs and more reliable service.

Consider well these measures of progress over the last six years:

. In our continued drive for full area coverage we have brought service to an estimated 1 million new consumers in the areas served by REA-financed rural systems.

. The percentage of farms now served by central station electric service has moved up from 96.5 in 1960 to 98.3 in 1966.

. All together this means a total of 5,680,000 meters, or more than 20 million rural people now served.

. In our new emphasis on providing parity of electric rates for rural people and rural business expansion the number of rate reductions increased

from 14 in fiscal 1961 to 31 in 1962, 77 in 1963, 111 in 1964, 126 in 1965, 151 in 1966 and 92 in fiscal 1967 -- a total of 602 for a combined annual savings to rural consumers of $19 million.

. In building the operating and financial strength of REA-financed rural systems, power sales rose from 27 billion kilowatt-hours in 1960 to nearly 49 billion in 1966.

. The average monthly kilowatt-hour consumption by farm and residential consumers on REA-financed lines increased by roughly 158 kilowatt-hours -- to an average of 515 kilowatt-hours a month in 1966.

. In the diversification of load demand the number of small commercial loads on REA-financed lines increased by more than 50,000 to a total of 332,000.

. Large commercial and industrial loads increased by nearly 7,000 to a total number of 19,000.

. The percentage of revenues received from commercial and industrial consumers increased from 21.1 percent in 1960 to nearly 25 percent in 1966. This is still far short of the more than 50 percent which Class A and B commercial utilities realize from such loads, but substantial progress nevertheless.

. Some degree of legal protection for rural electric cooperative systems and service areas is now provided in 32 states, 14 more than in 1960.

. Consumer density has risen from 3.3 per mile of distribution line in 1961 to 3.5 in 1966.

. Average distribution plant investment per kilowatt-hour sold has declined from 11.9 cents in 1960 to 9.4 cents in 1966.

. The dollar net worth of all REA borrowers has been raised 81 percent in the last six years. As a percentage of total assets it has increased from 19.7 percent to 26.3 percent.

. The number of REA borrowers with general fund levels of between 6 and 15 percent of total plant, the level of reserves which is both necessary and fully defensible, has increased from 384 in 1961 to 583 in 1966.

. In our determined efforts to improve the cost and terms of wholesale power supply the generating capacity in service of REA-financed systems had more than doubled -- from 1.6 million kilowatts at the beginning of 1961 to 3.7 million kilowatts at this time. Add to this REA loans approved for an additional 2½ million kilowatts of capacity not yet constructed.

. The percentage of total power needs which REA-financed systems receive from their own and REA-financed generation has increased from 15.6 percent in 1960 to 19.6 percent in 1966.

. In 1961 there were 19 companies which had dual rate provisions in 189 contracts with REA-financed systems. Today the number of companies is down to three, and the number of such restrictive contracts has been cut from 189 to 21.

. The average cost of wholesale power purchased from all sources has been pushed down to a new low of 6.4 mills, from 6.9 mills in 1960.

. The average unit size of REA-financed generation facilities has these past six years been more than 3 times the average unit size of the facilities financed the previous six years -- 117,000 kilowatts as compared with 37,000 kilowatts.

. Although REA-financed generating facilities have historically had to face the handicaps of isolated requirements with small units and consequent relatively high production costs, the largest reduction in wholesale power cost these last six years has been in the cost of power from REA-financed power-type borrowers -- a reduction from 9.2 mills in 1960 to 8.3 mills in 1966.

All this has taken a record-breaking amount of REA financing. Total electric loans for the six-year period of fiscal years 1962 to 1967 inclusive have amounted to $1,908,000,000. This is an increase of 36 percent over the total for the previous six-year period.

In our accelerated attack on the problems of wholesale power supply total loans for generation and transmission facilities in the past six years have added up to $978,000,000, which is 71 percent greater than the previous six-year period and more than the total of generation and transmission loans in the entire 25-year period of the REA program prior to 1961.

These are hard-earned gains. They did not just happen.

They would not have happened if John Kennedy had not been elected President of the United States in 1960 and his mandate delivered to REA "to get on with its work of providing low-cost electricity and telephones for every American farm family."

They would not have happened without a tremendous amount of doing on your part -- as well as on ours -- working together toward the important objectives of the rural electrification program.

They would not have happened without a highly effective NRECA and equally important statewide organizations.

They would not have happened without the staunch support of great men and true friends of rural electrification in the Congress.

They would not have happened without the sympathetic understanding and support of many state Governors and many more members of state legislatures.

They would not be happening today if there were not a man in the White House with the deep understanding of, the long association with, and the personal commitment to the cause of rural electrification which President Johnson has repeatedly demonstrated.

These are days of difficult dilemmas and tough decisions for us as a Nation, faced as we are with war and upheaval abroad and deep social unrest at home.

It takes a strong President to uphold our international commitments today in this troubled world, but uphold them we must. Our security in the world depends upon clear understanding, clearly demonstrated, that as a Nation we mean what we say, that we stand by our commitments to our friends and allies and stand with equal firmness behind our warnings to our enemies. Any other course is to invite the all-out disaster of a World War III triggered by an enemy bluff or miscalculation.

There have always been those faint hearts who are forever afraid we cannot afford progress -- that we cannot afford to tackle the problems of Rural America, to fight poverty, to build a stronger and greater America.

It takes a strong President to resist the temptation, indeed the active urging of many, to put domestic problems and progress on the shelf until the demands of our international commitments are eased.

But President Johnson is doing both. We are upholding our international commitments. We are maintaining our national security. At the same time we continue to move ahead toward the objectives of the Great Society here at home, developing our resources, providing greater opportunity and justice for all.

In this effort rural electrification has a mission of great and lasting importance to the Nation.

The job of rural electrification is not done. Nor is the struggle over. Make no mistake about that. There are strong organized interests which are actively exploiting every opportunity to restrict the REA program and thus cripple the operation and effectiveness of your rural electric organizations.

There was ample proof of that in the recent defeat of supplemental financing legislation sought and so urgently needed to meet the future growth requirements of the rural electric systems.

As our burdens in Vietnam continue and perhaps even grow, the clamor of criticism can be expected to grow too, and the enemies of rural electrification will be joining the pack.

The opposition does not always launch a frontal attack. It fits its tactics to the situation, knowing full well that frequently the greatest damage can be inflicted by the flank attack seemingly directed at other issues. The ultimate objective is, of course, to win the positions of power which can then be used to suit its own purposes.

We are approaching a moment of momentous public decision in 1968. The future of the rural electrification program will be at stake -- as it was in 1960 and again in 1964.

Already the dust of controversy over issues charged with deep personal frustrations and strong emotion is filling the air. If ever we needed to see clearly, we need to see clearly now. The values we lose sight of in the confusion of irresponsible controversy at a time of decision such as we now face may be lost forever.

The rural electrification program is in jeopardy.

It must not be crippled or destroyed. We must not let that happen.

I believe deeply in the values of this program. I know you do too. You would not be here today if you did not. You would not have given so freely of your time and energies over all of these years in your dedicated efforts to build this program if you did not believe deeply in its worth.

Rural electrification, however, is not important just because you or I happen to be engaged in it. It is important because it offers the Nation an

essential key to a balanced national development -- a better country -- a brighter tomorrow -- for all Americans, rural and urban alike.

If this great program is to accomplish fully its objectives, if its greatest potential for the public good is to be realized, the unique and constructive partnership between you and your Federal Government which has worked so successfully all these years is still necessary.

None of us would challenge any one's right to dissent. It is a fundamental liberty of the individual in a free democratic society. Constructive criticism is an essential element in the decision making of the democratic process. Irresponsible dissent and malicious criticism, however, are subversive of the democratic process. They can stampede unthinking people down the road to serious error and costly defeat. In the highly charged atmosphere of present controversy we need to stop and think. We need to take stock -- to seek out the truth, to count our blessings, to weigh carefully the alternatives. If there was ever a time for sober judgment, it is now.

We had to work together to bring the rural electrification program into being. We have had to work together over the years to make it succeed. If we want it to continue, we must continue to work together to preserve it.

#

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Remarks of Norman M. Clapp, Administrator, Rural Electrification Administration, before the 14th Annual Meeting of the National Telephone Cooperative Association, February 2, 1968, Washington, D. C.

It is a source of great satisfaction to me to see the size of this annual meeting of the National Telephone Cooperative Association and to get the feel of the growth and purpose it represents.

When I first had the pleasure of addressing an annual meeting of the National Telephone Cooperative Association as Administrator of REA in 1962, you were deeply concerned about the position of cooperatives in the rural telephone program. In fact only a year before, this organization had passed a resolution urging the REA Administrator to review "certain discriminatory requirements and practices in regard to equity and engineering" and "adopt such corrective measures that will further the development of the rural telephone program."

There was even a suspicion, as I recall, that REA policy was preventing telephone cooperatives from realizing their full potential.

Since that time, I believe that one of our greatest accomplishments has been to clear the way for the proper development of the cooperative in the rural telephone program.

A measure of the success of this effort is evidenced here. Attendance at this annual meeting of the National Telephone Cooperative Association has grown from 500 who came to New Orleans in 1962, to the more than 1,200 people gathered here at the Mayflower. The number of cooperative organizations holding membership in your association has grown 36 percent during that time, from 125 in 1962, to 170 at latest count.

- more-

The number of telephone cooperatives financed by the Rural Electrification Administration has also increased. More importantly, however, their position in both the REA telephone program and in the overall telephone industry has been consistently strengthened.

Twenty new telephone cooperatives have been established over the past 7 years, bringing the total number financed by REA to 231. These cooperatives, representing 27 percent of the active borrowers, have received $518.8 million, or 36 percent of the total loan funds in the REA telephone program. Since 1960, loans to cooperatives alone amount to about $250 million.

Their growing net worth, from $5.9 million at the end of 1960 to $26.4 million at the beginning of this year is a testament to their financial success. Plant investment, which has grown from $312.3 million in 1963 to $412.5 million, plus the approximately 183,000 increase in subscribers receiving new or improved service, and the 47,000 increase in miles of line loaned for in the past 7 years, are further indicators of your increased financial stability and growth.

These gains have been accomplished through the new direction we have -- together -- given this unique partnership of local cooperative business enterprise and Federal assistance these past seven years.

Acting on the results of a fact-finding inquiry we made in early 1961, we revised our loan security requirements to encourage more local ownership of rural telephone facilities and to discourage the speculative trends showing up in the industry. The new policies, which are in effect today, require appropriate equity investment from borrowers not locally owned, screen acquisitions more carefully to promote an orderly expansion of local telephone systems, provide a more practical standard for financing acquisitions by cooperatives, and strengthen the mortgage by imposing additional financial controls to prevent the milking of REA-financed systems by speculative interests.

These new policies have had the effect of materially stabilizing the REA-financed sector of the rural telephone industry. They also helped get the cooperative telephone program moving again -- moving into its rightful place in the telephone industry and the over-all effort to restore a proper balance to the rural-urban development of our Nation.

Today, largely due to the REA telephone program in which your cooperatives have played an increasingly important part, about 80 percent of the Nation's farmers enjoy modern telephone service, compared to 67 percent in 1960. We have come a long way, but we still have a long way to go before we attain the basic objectives of area coverage and telephone service for rural people comparable in quality and rates to what people in our urban communities enjoy.

When I became totally involved in this program in 1961, slightly more than a million rural subscribers were receiving telephone service over REA-financed lines. Although service quality was considerably better than most had enjoyed before the REA lines came in, there was still much to be desired. More than half of the rural subscribers were forced to share their telephone with more than 4 other families.

Since then, the number of rural people served and the quality of service available have steadily gone up. As of the first of this year, nearly 2 million subscribers were on the lines of REA-financed telephone systems -- more than 500,000 of them served by cooperatives. And about 65 percent of these farms and rural subscribers have 4-party or better service.

Many factors have contributed to this record of success, including breakthroughs in equipment design and construction techniques, pioneered by REA engineers and developed with the close cooperation of the telephone industry. Largely because of engineering achievements, the cost of constructing a circuit mile of rural telephone line has actually gone down when the cost of nearly everything else has been going up.

Moreover, rural people enjoy a quality of telephone service almost undreamed of less than two decades ago.

Today, the old magneto crank telephone has all but been replaced in rural homes. In its place is the modern dial telephone with modern transmission capabilities and quality.

Overhead telephone lines are being placed underground at a rapidly accelerating pace, helping to preserve the beauty and the open space of the countryside and provide more reliable systems -- free from the hazards of weather. About 80 percent of all construction now under contract is for underground lines. And, through newly developed techniques pioneered by REA engineers, the cost of these and other improvements is consistently being lowered.

For example, voice frequency repeaters, designed to meet REA engineering specifications, boost the strength of signals going over rural telephone wires and allow rural systems to use less expensive finer gauge cables in new construction. Last year, more than 30 percent of all circuits constructed by REA borrowers used this smaller gauge wire and saved as much as $38 on each circuit mile of line constructed.

The cost of these repeaters has also gone down. Today, three manufacturers, by following REA engineering specifications, are producing repeaters at half the cost of previous models.

REA borrowers make further savings by utilizing existing construction to serve new subscribers rather than build new lines. Low-cost subscriber carrier equipment, designed to REA engineering specifications, is now being used throughout the telephone industry. Embodying the latest concepts in electronic design techniques, this equipment is simple to install and maintain by unskilled personnel. With it, the wire it formerly took to serve only one subscriber can now serve up to six rural subscribers simultaneously.

Other breakthroughs include the design and testing of plastic conduit that will reduce the cost of this type of underground construction by nearly two-thirds; the virtual elimination of strategically important copper in many phases of telephone system construction, thus releasing this strategic metal for defense and other purposes; and advances in the design of central office equipment that will permit rural systems to extend their radius of operation by more than 30 percent.

Engineering achievements -- part of the technical assistance of the REA telephone program -- are thus making their contribution towards realization of two long-term objectives of REA -- area coverage and telephone service for rural people comparable in quality and rates to what people in urban centers enjoy. Lower construction costs contribute substantially to the ability of the systems to reach out and serve the thin areas.

Since 1960, REA borrowers have brought new service, or improved existing service for about 780,000 rural people. REA loan funds advanced during these past 7 years increased 90 percent, from $736.8 million as of the end of 1960 to more than 1.4 billions of dollars at the end of 1967. Loans to telephone cooperatives alone amounted to $247.9 million during this period, an increase of 91 percent over the first 10 years of the program.

These are hard-earned gains. They did not just happen.

They would not have happened if John Kennedy had not been elected President of the United States in 1960 and his mandate delivered to REA "to get on with its work of providing low-cost electricity and telephones for every American farm family."

They would not have happened without a tremendous amount of doing on your part -- as well as on ours -- working together toward the important objectives of the rural telephone program.

They would not have happened without your growing and increasingly effective NTCA.

They would not have happened without the staunch support of great men and true friends of rural telephony in the Congress.

They would not have happened without the sympathetic understanding and support of many state Governors and state regulatory bodies.

They would not be happening today if there were not a man in the White House with the deep understanding of, the long association with, and the personal commitment to the cause of better rural life which President Johnson has repeatedly demonstrated.

These are days of difficult dilemmas and tough decisions for us as a Nation, faced as we are with war and upheaval abroad and deep social unrest at home.

It takes a strong President to uphold our international commitments today in this troubled world, but uphold them we must. Our security in the world depends upon clear understanding, clearly demonstrated, that as a Nation we mean what we say, that we stand by our commitments to our friends and allies and stand with equal firmness behind our warnings to our enemies. Any other course is to invite the all-out disaster of a World War III triggered by an enemy bluff or miscalculation.

There have always been those faint hearts who are forever afraid we cannot afford progress -- that we cannot afford to tackle the problems of Rural America, to fight poverty, to build a stronger and greater America.

It takes a strong President to resist the temptation, indeed the active urging of many, to put domestic problems and progress on the shelf until the demands of our international commitments are eased.

But President Johnson is doing both. We are upholding our international commitments. We are maintaining our national security. At the same time we continue to move ahead toward the objectives of the Great Society here at home, developing our resources, providing greater opportunity and justice for all.

But he cannot do it alone. He must have your help. He must have the support of the Congress. He must have the support of the people of this country -- your support.

The determination of his leadership in pressing forward with vital domestic programs here at home at the same time we are compelled to carry on a major military commitment abroad is without parallel in our national history.

But whether the wisdom of this leadership prevails depends upon the understanding and support of millions of Americans -- like you and including you -- who have a stake in progress at home even as we struggle to preserve our security in the world.

The first test will come in the impending battle of the budget for fiscal year 1969.

In the budget for fiscal year 1969, announced Monday, the President has recommended that funds be provided to finance a loan program of $125 million for the telephone program next year. Although it is recognized that this will not solve the problem of rising unmet needs in this program, it does represent an increase of some $5 million over what we will have available for this fiscal year of 1968. It will be the sixth straight year of modest but consistent increases in the telephone loan program.

In 1963, $86.3 million was approved for telephone loans. This was increased in 1964 to $90.0 million. In 1965, the telephone loans program amounted to $97.0 million; $101.0 million in 1966; and $118.6 million in 1967. This year it will be $120 million.

To make this possible your help is needed -- in three ways.

First, as Congressman Poage told you last evening, your active efforts are needed to make the public -- and the Congress -- aware of the urgent need for this level of loan authority, not only in the interests of the rural communities you serve, but also in the broad public interest of all.

Second, in these days of heavy drain upon the cash resources of the Federal Government to meet all our national commitments -- the commitments to these vital domestic programs as well as our national security commitments abroad -- we need your help in temporarily funding your REA telephone loan program. We need your help in lending the maximum use of your surplus cash resources to our common program purposes through the Joint REA-Borrower Cash Management program.

The amount of cash the Federal Treasury must supply this year and next to pay your requisitions under approved loans is determined by two factors. One is the amount of requisitions you submit. The other is the volume of cash you pay into the Treasury yourselves -- in scheduled debt service as required under your notes and in additional cushion of credit payments paid in ahead of due dates.

In Fiscal year 1966 the total cash paid out on telephone loan requisitions was $82.2 million. Total receipts from telephone loan repayments and cushion of credit advance payments was $43.9 million, leaving a net amount of $38.3 million which the Treasury had to supply from other sources.

In the last fiscal year, 1967, without the Joint Cash Management Program -- or the Joint Counter Inflation Program -- as it was then named -- the total disbursements anticipated were $105 million, total telephone loan repayments and receipts expected were $45.3 million, and the net to be supplied by the Treasury from its other sources was $59.7 million.

But under the Joint Cash Management Program, with your cooperation, the amount requisitioned was cut by $2 million and the receipts from telephone loan repayments and advance payments were increased by $2 million. This reduced the net cash drain on the Treasury by $4 million.

Advance repayments increased from $700,000 in 1966 to $2,800,000 in 1967, four times the previous year's level. Of the accumulated $13.8 million cushion of credit balance on deposit with the Treasury from REA telephone borrowers at the end of fiscal year 1967, over half had come from 132 telephone cooperatives.

This is a remarkable demonstration of your sense of public responsibility and your spirit of cooperation in working with your Federal Government in this joint undertaking. Those of you who contributed to this record can be justly proud of your part in it. All of us must be genuinely greteful for your assistance in thus helping keep the life-line of REA credit open.

I want to assure you that officials in the Department of Agriculture, the Bureau of the Budget and the White House, know about your magnificent cooperation in these difficult times. I also want to stress that their knowledge that you are doing your part has been the key factor in making it possible for us to do our part -- to keep open your credit line by avoiding drastic cuts in your loan levels.

For the present fiscal year we need your help in holding cash requisitions to $105 million and boosting cash receipts from telephone borrowers to $52.5 million, and thus actually reducing the net cash requirement of the Treasury to $52.5 million. Without a Joint Cash Management Program the net cash drain on the Treasury for REA telephone loans would be expected to go as high as $83.8 million.

If through pooling our cash resources, we can succeed in holding down the net cash demands upon the Federal Government, the loan level itself need not be of immediate concern to those who are so insistent upon budget cutting.

Meeting the goals of the Joint Cash Management Program is the best insurance there is for maintaining the REA line of credit in this period of Federal budgetary problems.

Finally your understanding and support is needed in one further respect. Even with a successful Joint Cash Management Program, the Federal Government will still have to find substantial sums of cash elsewhere to meet the commitments of the REA telephone loan program. It will either have to come from increased taxes or increased governmental borrowing.

Too much reliance on additional borrowing poses serious dangers of excessive price inflation -- which in reality taxes every consumer. A substantial part of the additional budget requirements must be met through increased tax revenues, as the President has recommended.

I know the feeling of telephone people generally about the present 10 percent excise tax on telephone service now scheduled to be reduced to 1 percent on April 1 of this year and eliminated entirely next January.

But in the interest of responsible fiscal management, the dates of these adjustments need to be postponed to July 1, 1969, and January 1, 1970, respectively.

This is part of the price we must pay to keep these vital domestic programs going in this difficult period. So too is the President's recommended surtax proposal.

But really these are a small price compared to the benefits they will return in continued economic progress and development.

These are the measures we must take together in meeting the immediate needs for continuing the basic REA telephone loan program.

For the long pull -- to meet the mounting demands of growth over the years to come -- we urgently need the supplemental access to the private money market which the Rural Telephone Bank bill would provide if enacted.

And so today, as you bring to a close an eventful and memorable annual meeting of NTCA, great should be your satisfaction with the progress you have made. Proud you should be of the added stature you have acquired in this great industry. But with this progress, with this stature, with the growing resources

at your command come greater responsibilities -- responsibilities to your membership and your communities for continuation of the vital service you provide and responsibilities to all your fellow Americans for using the resources of your cooperative organizations in such a way as to make the maximum contribution to the welfare and progress of our Nation.

It has been aptly said that eternal vigilance is the price of liberty. The price of progress is keeping everlastingly at it.

The road is never easy, even in normal times -- and these are not normal times.

We had to work together to bring the rural telephone program into being. We have had to work together over the years to make it succeed. If we want it to continue, we must continue to work together to preserve it.

#